Ad Hoc Committee members present were:

Mr. McLaren (Mac) C. Carter, Board of Agriculture & Conservation
Mr. Wesley E. Eckert, Darigold (retired)
Mr. Ernie Hall, Alaska Furniture Manufactures
Mr. Paul Huppert, Palmer Produce
Mr. Don Lintelman, Northern Lights Dairy
Mr. Rex Shattuck, Aide, Rep. Mark Neuman
Mr. Mark Neuman, Alaska State Representative p.m.
Mr. Joseph Van Treeck, Matanuska Maid
Ms. Gail Phillips, Business
Mr. David Wight, Business
Mr. Ken Sherwood, Alaska Mill & Feed
Ms. Ginger Blaisdell, Aide, Senator Lyda Green, telephone

Support Staff in attendance were:

Mr. Edmund Fogels, Acting Deputy Commissioner, DNR
Ms. Rhonda P. Boyles, Chair, Board of Agriculture & Conservation (BAC)
Mr. Larry DeVilbiss, Director, Division of Agriculture
Ms. Candy Easley, Loan Officer, Division of Agriculture
Mr. Raymond Nix, Natural Resource Specialist, Division of Agriculture
Ms. Rachael Petro, Special Asst., DNR Commissioner's Office,
Ms. Lora Haralson, Administrative Assistant, Division of Agriculture
Mr. Frank Huffman, Manager, Mt. McKinley Meat & Sausage
Mr. Chad Padgett, Director, USDA Farm Service Agency

Acting Deputy Commissioner Fogels: .....going and Chad here is setting up the PowerPoint to do that. Welcome. Good morning. Hope everybody had a good weekend. It seems like I was just here yesterday. Again, welcome to the second day of the Dairy Ad Hoc Committee. I really appreciate the work you all did last week. I was pretty much here for the entire day last time and I was pretty impressed with the information that was presented and the discussion. I hope that what you learned from last week expanded your horizons a little bit as to the complexities as to some of the issues that we're facing.

Today, we're going to start off with a presentation by Chad Padgett, from USDA Farm Services Agency. And he's going to talk a little bit about federal loans, some of the fiscal components. After that, Candy Easley from our staff is going to be talking about state loans and the state's role in funding. And then at 10:30 we're going to have some testimony from some of Alaska's dairy farmers. And then lunch again will be on your own. And after lunch, Joe's going to talk about Mat Maid privatization. And then Ray Nix at 10:30 and then I think Rachael will come back, but I may not be able to spend much more time here after that. So I'll try and make myself available for the – for next week's meeting so – any other opening comments? Rex.

Rex Shattuck: I just wanted to thank the staff that worked so diligently in putting information up on the Web site. With the exception of one report, it was pretty easily accessible and I appreciate it.

Director DeVilbiss: What was the one that wasn't accessible?

Rex Shattuck: The Ferguson reports.

Unidentified Speaker: It's big.

Unidentified Speaker: (Indiscernible). I tried about four times, but I think it was the.....

Unidentified Speaker: It's a huge file. Like 74 megabytes or something.

Unidentified Speaker: Thank you.

Acting Deputy Director Commissioner Fogels: And speaking of information, yeah, Larry's staff have been working pretty hard since the last meeting to get together all the information that we outlined at the last meeting that would help. So that will be handed out as the day progresses at the appropriate times. And Lora, you have some – the summary from the last meeting also? Or is....

Lora Haralson: Yes, I do but I'm not prepared to distribute it yet. I don't even have it done yet.

Acting Deputy Director Commissioner Fogels: Okay. You still have to go and (indiscernible) finish it off. Okay, we'll get that summary from the last meeting together as soon as possible. It's a lot of information to summarize so it took a fair bit of work, so – okay. Well, let's give Chad a few minutes to warm things up here and get refreshments, coffee. I think you all know where the restrooms are. And our drill, up the stairs, down the stairs and the parking lot to the southeast. Just follow the stream of people.

Chad Padgett: Well, sorry I'm a little bit late. Drive from the Valley; I'm not used to that commute. It's okay if we can't get this to work. I got a – most of what I have is memorized. Okay. Well, good morning. I know pretty much everybody in the room. I'll get to the PowerPoint here in a second. For those that don't know me, my name is Chad Padgett. I'm the state executive director for the USDA Farm Service Agency. I was appointed to the position by the Bush Administration back in 2001. And we – ever since that time we've had a number of issues and things to work through in my agency.

So some of what I'm going to talk about today is kind of a culmination of some of the things that I found when I came into the agency and a lot of what we've had to go through as an agency to get to where we're at now. Probably going to start with – and probably one of the things I know is on some minds in the room, we've had a lot of talk the last two weeks about – I see just walking in – about Mr. Beu with Windsong Farms. So I might as well just start with that because I know there's a lot of talk about it.

What I will tell you, we've tried to do everything that we can. I'm not going to get into the particulars on what the financials are. That's all covered under the Privacy Act. Excuse me. However, what I will say is we've been through every option that we know of for the last four years to work with Mr. Beu. However, we've exhausted all those and I'm under a statutory requirement I can't do anything about, so we have to move forward.

Something else I'm going to say is we can't make – I know that there's also a thought that we can make a decision to put things off. It doesn't work that way. That has been done in the past. USDA in the past in my agency has gone around the rules. It's illegal. It's unauthorized. We're not going to do it. That's something when I took over that was very clear in our administration that we were going to conduct ourselves in a businesslike manner, take the politics out of lending. So we've made a number of changes to do that.

Something that we used to have in our agency – well, we still do – is our county committees. Those are committees that are actually elected by farmers. And they used to make loan decisions back in the '80s. And I think even somewhat into the early '90s. We used to be able to do that. Our farmer-elected committees would review a file and they would approve a loan.

Our administration and a couple administrations before ours decided that that wasn't a realistic way to conduct ourselves in lending practice. So we decided that instead of having our county committees do it, our professional staff would be the ones to make decisions on our loans, with the state director having loan approval authority. So the loan approval authority is mine. And I basically delegate my authorities down through the staff. And depending upon their level within the agency, that governs what type of monetary value they can approve or disapprove. So that's how things work within the agency. If anybody's got any questions, like I said, we might as well talk about this right to begin with. I think I can bring some more things to light as we go. But I'm going to reiterate, I won't talk about financials, because it's governed under the Privacy Act. But I will talk about what we have offered.

In our servicing program, we're governed under a regulation called – it's FmHA 1951-S. Under that regulation, FSA is extremely liberal in how we handle delinquencies and distressed borrowers. So we go through a number of time frames. We can go through re-amortization or rescheduling of a loan. We can go through everything up to a debt settlement, write-downs, homestead protection. There's a number of options that we have. But within those options, there are also a different parameters that we have to explore to make sure that any given borrower can pay back what we do offer them.

So we have offered that settlement. We've offered homestead protection. We've offered everything available to us. There's nothing more I can do about it. So I just wanted to make sure that was clear upfront this morning. And if there's any questions, I'll take those before I begin my PowerPoint. Okay.

Basically, what I have to start with – and hopefully I can make this thing work. I wanted to give a little idea of how we are established and set up. And if I get in anybody's way, let me know. We – this is how we are set up within USDA. There's essentially three partner agencies under USDA. We have the Secretary of Agriculture, of course, the Natural Resources Conservation Service or NRCS, the Farm Service Agency and Rural Development.

The primary goals of these three agencies are to work with not only individual farmers, but communities to establish a good farming community.

Excuse me. Natural Resources Conservation Service is charged with the technical aspects of that – of working with producers to identify soil types, help with watershed projects, those types of things. That is typically done on the farm.

The Farm Service Agency is charged with the support of the individual small farm, small family farm through price support, conservation – excuse me – and farm loans. Rural Development is charged with the community. Basically, they build the community, and infrastructure and small business to support the agricultural community. That's typical across the country.

Here things work just a little bit differently than that because we don't have a large agricultural community. So we can find a lot of the times that Rural Development is more working with villages, trying to help them with different projects. Excuse me. But that's the basic set up.

The state director for Rural Development, myself being Farm Service Agency, are both appointed by the administration. And then the Natural Resource Conservation Service is a career position. The three of us are on a lateral – we're basically lateral across the board. And we are supposed to come together in what's called the Food and Agricultural Committee, work as partners to identify any problems that we see in agriculture and forward those issues to the secretary for formulation of policy. That's the basic set up of what we do.

This somewhat explains what I just talked about. We – again, FSA, we provide a safety net. How we do that is fairly complex. I don't know how many people have ever heard of the Commodity Credit Corporation. But basically what we do there is buy and sell commodities on the foreign markets. So we are funded through the Commodity Credit Corporation.

A little while ago I talked about county committee system. What that does is it gives me a two-fold issue to deal with within my agency. On the county committee side, all of our staff on our committees are funded through the Commodity Credit Corporation. So although those folks are part of a federal agency, they are considered non-federal employees even though the check comes from the same treasury I get mine from. But because it's funded out the CCC it comes from a different source. We have the same thing in our farm loan program versus our other producer support programs. So for the farm loans, those are appropriated dollars. They are actually appropriated by Congress to come to us.

For our price support, our conservation, any of our other programs, those all come through the Commodity Credit Corporation. So we are dependent on how well the Commodity Credit Corporation is doing for how we can fund different projects. So when we talk about our price support in any given commodity, we are talking about World Trade Organization negotiations. I don't know how many in the room have ever heard about the negotiations that are going on right now with the 2007 farm bill. But there is a cap, there is a funding cap that we cannot exceed because of those negotiations. Otherwise, we violate World Trade Organization rules. So Congress, the secretary, all of us are bound by those caps. So we cannot exceed those.

I forget now what our actual figures are for support under the 2002 farm bill, but I would say we're somewhere around 19 billion dollars. The other thing to understand about USDA is we have the second largest budget in the entire country as far as federal agencies. We are secondary only to defense. So a lot of dollars come through our three agencies for this type of support. We work – do work a little bit differently. I'm fairly restricted in what I can and cannot do mainly because Congress gives us a program. We have to stay within the bounds of those programs and most of them are based on oh, 12 or 13 different commodities, most of which are not grown in Alaska. Those commodities include things like oil seeds, feed grains, soy beans, corn, the big commodities you typically hear about.

One other element to what we do is disaster assistance. And this a key to understanding what's happened here in the state. I saw – I'm going to spend a little bit of time on our disaster programs. We have two sides to any given disaster. One is farm loans. We have emergency loans that can be granted. On the other side, we have through the Commodity Credit Corporation, disaster assistance programs. Congress has to authorize those.

What happens when we have an agricultural emergency, the governor will typically declare that as an emergency. Then our charge is to go through and find out – well, not find out. The governor sends the disaster declaration to our national office to the secretary and then it's determined whether or not the president or the secretary will make a disaster declaration. If that does happen, then it does authorize us to implement disaster assistance.

One of the things that's key to that is you have to show that on your farm you suffered the disaster. So although there might be a disaster in the area, you still need to show that you had an impact from that disaster. I think it was in 1998, probably most of you will recall when we had all the avalanches here, especially between Girdwood and Anchorage there was a whole bunch of avalanches. I think 30 or 40 between here and Anchorage – or Girdwood. Excuse me.

Well, one of the things that happened in this agency is that emergency loans were granted for producers because of that disaster. Now there aren't many farms between here and Girdwood. So while there was an authorized disaster, some of the assistance that was granted was not exactly authorized. So that moves us into servicing loans and a whole different way than what you typically would do. Some of these loans should not have been made. They were what we consider unauthorized.

The other thing to understand about FSA, we provide both direct and guaranteed loans. Most of our loans are poor folks that cannot qualify for conventional loans. That's pretty important to understand. We're working with folks that have less than desirable credit. So the whole intent of that program is to build folks up under a supervised credit approach where we help them with their business practices to a certain extent. We look at everything. Some of the folks right here in the room can tell you what we do look at it. It's everything from your grocery bill, to your electric bill, to your entire farming operation. Because we have to look at a number of things.

Do you have a decent farm and home plan, a farm business plan. Do you have a ability to pay back what you are being lent. That's kind of a key issue. In a number of cases here in Alaska basically between 1996 and 2000 there were some loans that were given. Most folks were told if you can't pay it back, don't worry because we can write it down under the authority of the Commodity Credit Corporation. It's an incorrect statement. You have to understand that to understand where we're at with our lending program. We – excuse me. I'm losing my place. It's still a little bit early and I didn't get that cup of coffee yet so.....

Rex Shattuck: Chad?

Chad Padgett: Yes.

Rex Shattuck: Would you – if we have some questions, would you like us to hold them to the end of your presentation or.....

Chad Padgett: Either way. I don't mind. If you want to jump in because I hate just standing up here yakking my head off.

Rex Shattuck: Okay. Before you move on to the loans part.

Chad Padgett: Sure.

Rex Shattuck: The emergency declarations as they pertain to agriculture.

Chad Padgett: Right.

Rex Shattuck: The state's seen some pretty rough weather here recently, the Mat-Su Valley in particular. Had any – was there any impact on any emergency declaration made as agriculture-wide? If know they're working on it for others.

Chad Padgett: Not that I'm aware of. And that's part of the inherent problem. The other thing that I sit as chair of is called the State Emergency Board. It's made up of a number of people. We've had some very light discussions right now through that board we've been looking at pandemic flu, just to be honest with you, out of a direction from D.C. But typically what would happen, the State Emergency Board does have quite a bit of input with the governor.

To give a fairly recent example, when the borders were closed to due to BSE, that's one avenue that we used and worked with the governor's office to get a disaster declaration in Alaska for BSE. Mainly – not that we had BSE here, but it was an economic disaster because we couldn't move animals back and forth. So that's one avenue.

But right now, back to your question, even though we've had some horrendous weather, I'm not aware if – have you guys seen any disasters out there?

Wayne Brost: Yeah. There's been a lot of loss for crop losses from producers trying to get crops dry. Forages particularly. I don't know about the potato guys. Paul can speak to that. But as far as the forages go, I know at Point MacKenzie, for example, there are four farms that have oats in the field that the ground is way too soft to get them out. It's been (indiscernible) months. Things like that. But I have no knowledge of any governor declaration of any magnitude or any loss big enough to dictate that there would be a disaster.

Chad Padgett: So that's the first step, the governor has to make that declaration and then forward it on back.

Rex Shattuck: Does it have to be brought up to the governor?

Chad Padgett: Oh, yeah, absolutely. The process for that is many things. Typically, producers will bring it to the attention of the governor. We do. We work with a state – the other part is the state agricultural entity. There's a number of ways that it can happen. And it – the governor's declaration does not have to be solely for agriculture. If you get a blanket declaration and then a presidential comes on top of that, you don't have to have it specific to agriculture. That's probably something else that's important to understand. So I think there's already been a declaration made.

Gail Phillips: The governor is just making a universal statewide declaration because of the flooding in Southcentral. Would the agriculture fall under that?

Chad Padgett: It does, yes. So here's what – because of the time frames involved, the other part that has to happen there, it has to go through a whole process in Washington after the governor makes that declaration. So one of the things we haven't forwarded up for an agricultural purpose is because he's already doing it. So – but then, you have to have a program that's authorized to run after that.

Here real recently, the drought this summer that we've had in the Midwest, if you run down the center of the country – and there's a map out there. It's on a crop disaster monitor. It runs straight down the middle of the country for drought in many different states. With those – with that drought, Congress had to actually pass a law for emergency disaster assistance. And 50 million dollars is going to 15 states, just to give you an idea of how that works.

So even though you might have the declarations in place, the only thing we can typically run without Congress passing a law for a disaster is going to be our emergency loan program and our non-insured crop disaster program. Those are the two things that we are authorized to run on any given day.

Non-insured disaster assistance, you have to pay a $100.00 fee. You can't have crop insurance. It's got to be a commodity that's not covered by crop insurance. And that fee has to be paid in the spring. I forget the ending date, but I believe it's the end of May if I remember right. So you – all those things come together to provide that disaster assistance support. So it's very easy if you're not looking at our regs, if you're not following the law to go out and make an emergency loan just on a – basically on a whim, which was done. And it wasn't necessarily authorized.

So I will tell you this. The week I was appointed to my position, I walked into my office and the week before that there was a pretty big file on my desk on a loan review that had just happened prior to me coming on. Looking through that, it identified all of these issues. So my first charge the day I walked in the office was to start moving through the process of looking at these loans and figuring out a way to help clean them up. So all of this is going to play into what we're looking at in dairies and dairy loans and why we've made some of the decisions that we have along the way.

This is a really good way of saying what I just said, probably a little bit more eloquently. Some credit decisions were made that may not have been what was best for the producer. And that's a true statement. Although the producer signed on the bottom line, and they agree to pay back that money, they were also told don't worry about it; we will write it down. It's extremely important to understand. In another case I know of, the producer had even written a letter and said I don't want any more money and the agency used what's called a protected advance. The producer didn't want the money. When we see – typically what happens if we do a foreclosure or we take an action to take a property back, we will use what's called a protected advance. We actually lend more money to the producer to pay our expenses for looking after animals, looking after the farm, things like that. So that is applied back to their account. So money is actually tacked on the back of their loan. They don't have to ask for it; we automatically do it.

But it's only in the case of a foreclosure. In this case, it was actually at the beginning of a loan. It was again, an illegal and unauthorized purpose for that loan. It could not be done. The problem with that is even though the producer said they didn't want it, they wrote, we still gave it to them. There's no avenue in our current reg or in the law to go back and correct that without affecting the borrower. So even though we knew that we had a problem within the agency, and basically you could pin it – and it was our fault, there was no way to say that. And in fact, I could get in trouble for what I'm saying right now.

So there was no way for us to correct that action without derogatorily affecting the producer. Typically in unauthorized assistance you immediately call that loan even though we took the action. Now, in my opinion I don't think it's fair or equitable, whichever word you want to use, to go out there when you know the agency has done something erroneous and affect a borrower as long as they can pay it back. I don't think that because we took an action and put it on somebody else, that it's equitable to go out there and say well, we screwed up but you're going to pay for it. There's just – that's wrong.

So we decided that we would work with all of our borrowers in our portfolio to see if we could mitigate out those loans, find a way to have the least amount of affect possible. We've been able to do that in some cases and we haven't in others. Mainly because by the time I got my hands on the loans and put it in place a new farm loan staff, many people were so far gone that there was no saving them.

So what we're seeing today is the end effects of all of this that I'm talking about. And I'll get into more specifics as well as if – and again, if anybody has any questions about this, interrupt me. Again, I talked about this earlier this morning. In the event that somebody become delinquent or is distressed, we make our determination. If they're even distressed, not that they've become delinquent yet, then we have a number of things that we can do.

The opportunities of rescheduling, deferrals, homestead protection, write-downs and debt settlement. Those are kind of the big ones. Now a lot of people will liken a write-down to a write-off. It's not the case. A write-down is a process that we go through. You have to show a repayment ability. I have the authority up to $300,000.00 that I can write down. You have to be secured on that loan. Okay, so if your loan security is less than the loan amount -- hopefully everybody's following me because I skip around on this. But if your loan security is less than your full loan amount, I can write-down up to $300,000.00 to equalize that. Basically, it's for a non-secured loan or a loan that doesn't have no security.

In order to do that, we're going to take 150 percent security on the back end and re-write that loan. It's a pretty involved process. We actually have a computer program called Dollars that takes the decision-making completely out of it. We plug the numbers into the program. There's no human input into it at all. You plug those numbers in and it spits out how much I can write-down or not write-down. It's as simple as that but we have to have the numbers in order to do it. And we have to make sure that those numbers are accurate. Because one of the things that you have to make sure of is that on the staff level, your staff are inputting the right numbers.

Another inherent problem to our lending up here in the past has been that figures were much inflated when the loans were given. Give you an example of this. I'm going to use it on livestock. If you're looking at a – let's just say a cow. If you're looking at cow down south, that cow could cost anywhere from 1,500 to $2,500.00 right now. Is that about right, Rex?

Rex Shattuck: Two. Get two.

Chad Padgett: About two? Okay. So let's say two grand. Up here, if you were going to sell that cow under security, what's it worth?

Unidentified Speaker: Four.

Chad Padgett: Four hundred?

Unidentified Speaker: Yep.

Chad Padgett: Okay. Now you got a big discrepancy. So when you're lending on that cow, should you be lending on $2,000.00 or should you be lending on 400? Well, if you look at a reg, we should be lending on 2,000 for the loan making itself. On the servicing end, we should be look at 400. So what we have directed within my agency is that you now are going to look at the realistic value of a cow because we need to make sure that we're secured. There's no market to sell that cow up here unless it's basically a cull price.

It was that way throughout time. They've never been worth that they've been down south because there hasn't been the market. So those are some of the things that also affected our loan portfolio is that these figures from down south were being used rather than figures that were realistic to Alaska. That wasn't just on livestock. There were assumptions made on everything from grain production to hay production to sales. It didn't account for our weather patterns. This year's a perfect example of what can happen in our weather. So those things were never accounted for on the front end of our loan.

Unidentified Speaker: Just for frame of reference, when you're talking about that cow, what are you talking – what is that cow? Is it just beginning, is it a calf?

Unidentified Speaker: (Indiscernible) Holstein heifer. (Indiscernible).

Unidentified Speaker: So about how old is it?

Unidentified Speaker: Two years old.

Unidentified Speaker: Two years old. Okay.

Chad Padgett: And you're going to milk it how long?

Wayne Brost: Four or five years maybe.

Chad Padgett: So another problem that we have is when we do any kind of foreclosure or we actually end up taking that loan back, we got to look at our security. Because another thing I'm charged with, which is really important to me, is taxpayer fiduciary responsibility. I have to look at the taxpayer interest. So you not only are supposed to do that when you make the loan, but you're supposed to do it when you service the loan as well.

So we need to get the maximum dollar back that we can. It's not always going to be possible. That's when you get into some of the debt settlement. That's when we basically take a look at our security, we take a look at all the assets that any given producer has and we offer them a settlement based on that. Because we know there's only so much we can squeeze out of a turnip. You're not going to get anything more than that. So that's how we basically have to look at things.

And believe me, I'm simplifying this a lot. Our reg alone on servicing is a three – about a four inch three-ring binder. That's the reg. Now if you try and pull it up and down, it takes forever.

So like I said before, we went through and tried to figure out what can we do. So this is another important part of this discussion. And I might be wrong on the year. I couldn't remember if it was 2002 or 2003, so somebody might need to correct me on that. But Congress authorized $5,000,000.00 over a five year period for dairy production and processing facilities in the State of Alaska. The language was very general.

As we went through this, the monies were authorized but they were never appropriated and that's critical to understand. The reason they weren't appropriated is from our end we were asked what do you guys need out there in the state in order to make this a go. And that came straight from Senator Stevens' office. They asked us what can we do to support the dairy industry, how do we deliver this.

Well, one of the things that we looked at and something that I think is very important, if you're going to support the industry with federal or state dollars, you got to look at your production base. Are we going to have a production base? If we're not, then the whole discussion is moot. And I'm talking both on a personal end and on an agency end because we are charged with support of the small producer.

So we took into account a number of things. We had a series of meetings on this. These meetings entailed my state emergency board made up of myself, Rural Development, Natural Resources Conservation Service, Dr. Lewis and from that arm is Cooperative Extension, the Division of Agriculture and Joe, I think you were invited to a couple of those meetings. Excuse me. I'm losing my voice. Five million a year for five years.

So we got on with it. We did get all these groups together. And did a lot of what we're talking about right here. We took a look at what do we need to do. So there's a number of things that came out of that. The industry and the producers could not agree on how to use it. It's as simple as that. We did the best that we could to come up with a couple of things. But I can't tell you if they were right, wrong or indifferent. So we walked through how do we solidify the production base and how does that relate to processing and how does that go further to the consumer. We took a look at all of those elements.

The first thing that we thought that we had to do was solidify that production phase. So we came up with both a short-term and a long-term plan. On a short-term basis one of the things that we identified that was absolutely critical for the dairy industry was that we had high debt loads. For many, many reasons we had debt loads. I'm not going to stand up here and say that anybody was a bad producer or anybody did anything wrong on the production side of it. I think everybody was working pretty hard to get things done. So what we looked at is the situation that they were in at that time. You can't bring in cows. We have very little security position because we're not going to be able to sell these cows. They're going to end up a bear pile or culled out. We needed to look at how do we even get more cows in.

One of the ways that you could solve some debt loads if you brought in some cows. Unfortunately, at that time, the border was closed. So that became a moot point unless you had a lot more money. And we were trying to do this with the least amount of money that we could. So we took those debt loads and talked with all these folks, the entire congressional delegation and sat down and we hashed out the short-term plan for debt loads.

There is a federal and a state share. The federal share was $1,000,000.00 of this. The state share was 500,000. And remember this was the short-term plan. Between those two things – and at that time, it didn't matter whether you were an FSA borrower or a state borrower or anybody else, everybody was going to get a piece of that pie. We were going to try and start with that and see where it took us.

The other things that were coming along with that and something that I worked fairly hard on my own with was the cost of production allowance. It was another element that we looked at in agriculture in Alaska, figure out how better can we support agriculture here. I will tell you down south my agency puts out a lot of support in agriculture, but they grow commodities that are supported. Here, not necessarily.

So another thing that we looked at on a dairy farm is how do they get feed down south? How do they get hay, how do they get grains, and how is that subsidized? And if you look at it down there, everything is – has been or is subsidized. So if I've got a dairy farm and I've got a neighbor growing grain, you can pretty – be pretty assured he's probably get our price support, which is a marketing assistance loan, loan deficiency payment, he's probably getting some direct and counter-cyclical payments, he's probably getting a little bit of CRP for something, conservation reserve. And those are production oriented programs with the exception of CRP.

So my neighbor and even myself could be being supported in my feed for that production. And I bring it over to the farm so it's at a less cost. Here, we don't have that luxury because we got something in the way, the ocean and Canada. So we don't quite have that luxury. Other things that we found that folks didn't have was a labor force, a cheap labor force. You don't have – excuse me – access to many of the things that you would down south like what Milan talked about with veterinary services. You don't have fertilizer close. Even if you're going to get fertilizer from Agrium, that's a great support, but it still has to be transported.

So taking all those things into account, we talked about coming up with this cost of production allowance, and in addition to that transportation credits. The whole idea is this wouldn't be for any one industry. If it was Alaska grown and it was considered Alaska grown, it got a 25 percent production cost based on the receipts by the producer. They had to be verified. So if I were to go out, even if I were clearing land – if I bought a parcel of land and had to go out there and clear, I would get 25 percent of those costs back.

The tag on that for a dollar amount was $15,000,000.00 to begin with. Now in 2003, I believe it was, that language went all the way through conference committee in Congress. Language was developed. We threw it back there. Unfortunately, on the day that it reached the conference committee, Senator Stevens didn't happen to be there himself and it got thrown out because of concerns over wetland violations. Folks were afraid that we were going to come out and open up the floodgates and let everybody just start farming wetlands so it got held back.

So the very next opportunity we had for something like this is the 2007 farm bill. Sorry, I'm kind of – I'm not keeping up with my PowerPoint. The PowerPoint's not (indiscernible). So we went through the – through that whole process. The 2007 farm bill was the earliest opportunity we knew that we could get something in there. So a decision was made on the short-term thing, again back to the million and the 500,000 state and federal share (indiscernible) solution we could come up with.

So in 2005 appropriations, Senator Stevens did appropriate $1,000,000.00 for the dairies. Now to begin with, the language was too generalized. Basically, our folks in Washington didn't know how to deal with that language. We didn't know how could we support this. So the language had to be changed yet again. And they did. They did an emergency supplemental appropriation and the language was changed and it read we could only do it for FSA debt. The unfortunate part about that is anybody who didn't have FSA debt didn't get a piece of the federal money. So we split that million dollars up between our borrowers alone. And it would have been nice to see that spread across everybody. Again, it just didn't happen that way. It was a lot of wrangling with our attorneys back in Washington and they weren't going to do anything unless that's the way it was done.

Gail Phillips: Chad. Chad.

Chad Padgett: Yes.

Gail Phillips: Was that 1,000,000 considered a portion of the original 25,000,000?

Chad Padgett: Yes.

Gail Phillips: Or was that supplemental?

Chad Padgett: That was a portion of this 25,000,000. Thank you.

Mac Carter: And was this in response to the Canadian shutdown of borders or was it.....

Chad Padgett: In part, yes. Again, this is something we'd identified, BSE being part of it. But we never had anything to mitigate the BSE problem and the border closures. So I guess it was a part of it, yes.

Mac Carter: So this was really kind of a disaster, you know, attempt to – because this is a disaster, I mean.....

Chad Padgett: Right.

Mac Carter: .....you're cutting off your connection here to.....

Chad Padgett: Right. And well, we considered it was an economic disaster. And under our state emergency board there's another regulation called DR 1800. That regulation is what governs that board. It's being revised now with Homeland Security and a few other things. But essentially, we can look at everything from a technological disaster, an economic disaster, boy, you name it. There's broad authorities. And we even had a meeting with then Secretary Ann Venneman down in Kenai. In fact Senator Murkowski was also there.

And we all sat down and talked about this very issue, this BSE issue and how to mitigate it. But at that time, the secretary did not feel we could do anything more than emergency loans. So in some ways, the department has been very resistant to doing some things unique to Alaska. That's why some of this legislative stuff has come up. We've all worked pretty close and pretty had to get it done. It hasn't been an easy task.

Joe Van Treeck: Chad?

Chad Padgett: Yes.

Joe Van Treeck: Do you remember the gap in time from the border closure, not the first one but the one where it went both ways, between that – and that was like in the fall, like November or December.....

Chad Padgett: Yeah, that was like November or December.

Joe Van Treeck: And it was months – it was months before the governor declared a disaster.

Chad Padgett: Yeah, it was April I think when the disaster was finally declared officially. Because I know we had meetings in January and I think February and it took up until about April and then this meeting – I talked with – I think was about with the secretary and Senator Murkowski, I want to say June if I remember right. So I wanted to put all this timeline down, but I didn't have time to put it all together so....

Unidentified Speaker: Joe's questions were related to the initial – to the start of that process, right? So what appeared with that?

Chad Padgett: I'm sorry, what was that?

Unidentified Speaker: I know Joe's question was related to the beginning of the timeline, which would have been in, what, 2000.....

Unidentified Speaker: Well, it was in 2004, wasn't it? Wasn't it 2004 when we shut the border down both ways?

Unidentified Speaker: Three. Three. 2003.

Unidentified Speaker: Right at the end of the (indiscernible).

Chad Padgett: Yeah, it was closed I think – the border was actually closed in December or January. Because I think it was right between 2003 and 2004.

We were just rolling over. Okay, here's the short-term and long-term that I was talking about earlier.

I've pretty much concentrated so far on the short-term, which was debt relief and the cost of production, those were the two things that we were really trying to work out. And the other thing I think you need to understand too is that it wasn't just dairy. We had to figure out everything from feed to infrastructure to transportation. So this wasn't just centered around dairy. That's why this cost of production thing was a pretty big deal. And we asked for a lot of input that I will tell you we didn't get. We put it out in many public meetings. It was talked about a little bit with the Farm Bureau, but they never really picked it up.

It's real funny. This was something we thought would help producer, but folks just didn't seem to be too interested in looking at what we had to offer. So whatever reason, we couldn't get it through in 2003 and now we're continuing on to look at 2007. That's our best and only opportunity for the next five years to do it.

I will tell you the 2007 farm bill we're not sure where it's going to go. At this point the talk is and I think it will all depend on the outcome of the November elections, it may just stay as it is. If that's the case, we have very little to offer Alaska producers in my agency.

Gail Phillips: I have a question on the timeframe of the loan. It was a five year loan for 25,000,000; 1,000,000 has been authorized already. Does the entire 24,000,000 still stay in existence or is it cut out because of the years passing by?

Chad Padgett: It's come out. It was authorized on an annual basis. So it has gone. That's important to understand because still think there's.....

Gail Phillips: It's lost two years already. Three years?

Chad Padgett: It's four. Four. Four.

Gail Phillips: It's lost four years?

Chad Padgett: Correct.

Gail Phillips: So there's only one $5,000,000.00 opportunity left?

Chad Padgett: It's gone. Right. The appropriations are already done for 2007.

Paul Huppert: But that wasn't the loan.

Chad Padgett: No, it wasn't a loan. Well, it was loans and grants.

Unidentified Speaker: Money is available for loans and grants.

Chad Padgett: Right. So the reason it's gone, even though we haven't hit 2007, we're now into the fiscal year 2007. The appropriation bill is already being debated in Congress. So it's important to understand in order to get the last year of the appropriation, something needed to be done last April. So – and I've had many discussions with many people in the room about that. So has Senator Stevens' office.

In fact, there – to be honest, they're a little bit upset that this keeps coming back up that there's money available because there isn't. It's already passed. We're waiting on our budget right now. So that's done.

Joe Van Treeck: Chad, did everybody realize that they were losing 5,000,000 a year?

Chad Padgett: Yes. I mean, I don't know how many times I said it, Senator Stevens' office told folks. It's just not there, but it keeps coming up in this. So yeah, everybody should know. There's no reason anybody shouldn't know that it's gone.

Joe Van Treeck: But from the beginning they knew that, you know if they didn't.....

Chad Padgett: Correct. Yeah. It's something I think also that a lot of people get confused over the appropriations process. Because when you authorize something like this was authorized over a five year period, you're only authorized, but that doesn't mean the money's there. And I'll tell you the climate now between the war in Iraq, between all the things going on, the climate and the stomach does not exist any more to put things like this out. In addition, Stevens isn't sitting on appropriations, which he was at the time this one passed.

So – and I can tell you from firsthand examples that we've suffered a lot of what's gone on in the federal budget. I closed three of my five offices last year in the last year. Took quite a bit of heat for that. But we're doing that on a nationwide basis and many other agencies are as well. So it's winding down. There isn't a whole lot of room for us to play with the money like we used to. So on a long-term – sorry.

Rhonda Boyles: Chad, I need a little help simplifying what you just said. 25,000,000, 5,000,000 a year, we're past the fourth year, we've used 1,000,000. We may have the availability of 4,000,000. No? Zero.

Chad Padgett: No. Zero.

Rhonda Boyles: And your committee that looked at this obviously five years ago.....

Chad Padgett: Uh-huh (affirmative).

Rhonda Boyles: .....was – do they have any accountability for this?

Chad Padgett: Who?

Rhonda Boyles: Who has some accountability here for the loss of $25,000,000.00 and we're sitting where we are today and we've no hope of getting any more?

Chad Padgett: Well, there's many things you can say about the accountability. I mean, there's – I think you've got it from many different sides. As I say right here in the long-term solution, we couldn't get an agreement between the industry and the producers. That's one. Then things broke down after that even further. Like I said we with worked with the division pretty hard on this stuff. And I'll be honest, once John Torgerson left, we didn't hear anything more. So I don't think it was a lack of effort. I think everybody was trying. There was a lot of idiosyncrasies in here that prevented it.

So we've talked and we've talked and we've talked about this stuff and most – I think Rob and the producers over here, all these guys will tell you I've had meetings in my office where I've brought everybody in. I've the congressional delegation there, either there or on the phone. People didn't show up to the meetings. That's one part of the problem because you don't have all the players that need to be there. They were invited, but didn't show.

We've – I honestly can't tell you. I'm so – probably a lot of what I'm talking about today comes through because I'm pretty frustrated. I feel like I've tried to do everything possible to get this stuff out there, to get a solution, but we can't get anybody out there. There's a lot of in-fighting, there's a lot of backbiting. I've letters that have gone back on me to Senator Stevens' office that cite his staff and myself as being in cahoots just to give a bunch of welfare farmers more money. Basically, that's what the letters have said. They're anonymous in most cases. I don't know where they come from; don't really care because I blow things like that off. But those are the types of things that happen constantly all the time when you talk about dairies or any other industry. Somebody might get a little bit more than somebody else so we're all going to fight about it and nobody's going to get anything. And that's how I would sum it up.

Rhonda Boyles: What about the $650,000.00 that apparently we have now?

Chad Padgett: Okay, the 650 – thanks for bringing that up because I almost forgot about it. $650,000.00, what happened there last year in the appropriations cycle because of the $1,000,000.00 in fiscal year 2005, the appropriators just rolled over that million again into the next year. They thought they were helping everybody out so they just rolled it over. The reason it's 650,000 is all the formula reductions in the budget. Excuse me.

So I'll tell you – I don't know if I'd like to admit it or not, but Senator Stevens' office didn't even know it had rolled over until I was looking through there. Usually, I'll pull them up when the budget bill passes to see what's in there. And so we talked about it and said okay, what do we do. So the decision was and something we've trying to get to is this long-term solution. We need to get to a processing. We need to get the processing end. We've somewhat gotten the production end, at least they've got some benefit. So we need to put a processor in place.

And I will tell you all the meetings I've been in and all the people I've talked to, privatization of the industry has been the number 1 topic. And I've got it in here later, but one of the things I do agree with is that you got to privatize. Take politics out of it, you take the government entities out of it; it's probably going to work a whole lot better and let the market forces drive it.

But one of the things that happened with the 650,000 was again nobody knew where to put it. We had meetings with production side. That was – okay, if we're going to privatize this, the idea was let's go small. Another thing that we've seen time and time again are these great big projects, lots of money, lots of dollars go out and then nothing ever happens. So the idea was you go small. You put some seed money out there, you privatize this thing, you get something small and let it build over time instead of going the other way.

So that was the basic idea. So with the 650,000 it was – the discussion came down to which agency is best equipped to handle that. Well, because we weren't doing it on a FSA debt basis like we did with the $1,000,000.00 what we decided to do was go through Rural Development because they have business and industry programs. Basically, they have small business programs. They seem to be the logical agency to handle the $650,000.00. So that was done back in April or May when that money was actually sent down through the channels.

At first, they were going to send it through us again, but if it would have gone through us, then I have to give it to a producer or a small family farm, I can't – I don't have options to give it anywhere else. So that money has been with Rural Development at least since June. And they've talked with a few people that I know of, myself included on how best to handle that money. And I'll be honest, they know it's a landmine. Nobody really wants to touch this stuff anymore. I mean, just be plain and simple about it. So it's been held. It's been held up. And I don't think they're going to take any action on it until they've got a business plan. They're not going to move it through.

At first, they were looking at putting it in their business and industry program in the form of loans and grants. But I think that's been just held up.

Rhonda Boyles: Can I go back and ask a question, the small privatization idea, whose idea was that, what happened to it, is it still on the table?

Chad Padgett: If it's on the table, I don't know. When it was taken a look at basically Don's operation, he wasn't a part of these discussions I don't think. But taking a look at a small operator who has a few employees, you downsize things down. You're probably going to sell it. It seems like the market is going to pay – I mean, they already did get paid for what they think is a higher end product. So with the amount of milk that we've got, you'd probably sell everything right here in Southcentral and probably not have any issues. And I don't think it's going to compete with anything else.

Rhonda Boyles: Was there a business plan presented?

Chad Padgett: Yeah, we had a couple. To get things up and running – in fact, some of the producers worked with a gal out of the university, is that correct, who provided some numbers. Rob through RC&D, you guys put a couple of things in, didn't you?

Wayne Brost: You know, we never finished that business plan because of the lack of cohesion between the producers. Basically, we couldn't keep enough people on the same page long enough to agree to even form a co-op. And I guess I'd have to – Chad, excuse me for interrupting here, folks. But task saturated is a damn good word for what the producers are in. We're clearing land, we're hauling in equipment, we're milking cows and now you want a – you know, do we want to bite off a processing plant. My old lady wants a divorce when I talk about things like that. I can tell you that right now. That's where we're at. We didn't finish it. We've looked long and hard because there's been a lot of microprocessors like somebody said before in this country. And we looked at Wilman's (ph) just as an ideal model in this state.

Chad Padgett: Well, and I'll tell you that nationwide that's where things have been going, at least from the folks that we deal with down south. Nationwide, the trend is to go to this higher end, whether it's organic or not, the higher end of what people feel are more on-the-farm type product. So those are some of the things that we looked at and made sense to do. Instead of trying to go big and large, downsize it a bit and run it a little cheaper and more efficient. And it was mainly looking at from a business perspective what could be done.

Gail Phillips: Am I clear that you were looking at using federal funds to establish a new small sector private business to compete with an already government.....

Chad Padgett: No. No.

Gail Phillips: .....funded entity in Alaska? That's what it sounds to me.

Chad Padgett: No. That was not – no. That was not decided. Okay. That has to be understood. What we tried to do is get everybody at the table to agree on where it needed to go and there had to be a transition plan. And this goes back three or four years at least. Okay, just this part of it. It goes back three or four years. It was how do we transition out of our situation now into going towards a completely private plant. It was a transition and that was long-term plan that we worked out. So it wasn't anybody competing with anybody else. It had nothing to do with that. It was a transition to privatization and capitalizing the market.

Gail Phillips: But with a new entity.

Chad Padgett: Correct, yes. Well, it didn't have to be a new entity. It doesn't have to be.

Rex Shattuck: We're not calling Mat Maid a government-funded facility – business. Mat Maid generates its own revenues and runs it although the state is the major shareholder in it. It's in no way funded by – and I think Joe, you know, articulated the position that the dividends the state gets are in the economic, you know, economic generated – yeah.

Unidentified Speaker: Equation.

Chad Padgett: Sure. But here's the thing and I'll tell you this too. That's the other pretty important thing to understand about it. The other thing that I'll – everybody was looking at and this might be a little bit on the political sides of things. But okay, number 1, what does the state want to support? Do you want to support an industry, i.e., producers and production? What does the state want to support? At the time these discussions were held, it was to solidify the producer base and then move to production.

So what we had to look at in order to do that because of the situation, because you didn't have the producers who could on their own go out there and put up their own co-op or things like that. And because of a lot of this in-fighting I've talked about, where are you going to put these dollars. If anybody gets it, it's a nightmare. It's an absolute nightmare if anybody does anything.

I've can tell you I've been accused of discriminating for doing this $1,000,000.00 thing. So if you don't have – and I think this was a question on Mat Maid, if you have – what are they there for? Are they for support of the dairy industry? It's a fundamental question, are they or not? It is a state – the state has owned – it's – the state is a 100 percent shareholder, the state has a charge for support of the industry, therefore, through that avenue – and I don't know this – I'm just telling you what we looked at. Do they have a charge to support the producer?

Don Lintelman: I got a question. On that same line there, I think it's just like for us, we have so much of a market and we need to bring a product in in order to keep the door open. Otherwise, if we don't keep the door open, it's shut on us and they tell us we cannot no longer provide. So they abolish you all together on as far as a shelf life, or on the shelf. And I think that's where Joe is really coming from by bringing – having to bring products in from Outside.

Chad Padgett: Sure.

Don Lintelman: It isn't that we're discriminating against agriculture in this area at all for dairy. Like for myself, we had five people up there doing it. And there's only two of us left. Part of this is goes way back in the '70s when Hammond had this administration going through for agriculture. When Sheffield took over, it died completely. I mean, it died completely. The thing was too, during this period of time, the university switched over from agriculture to oil. In other words, you couldn't get nothing done in agriculture at all. Because we talked to Edsel Carlson (ph) on this deal for doing some preliminary stuff for barn building and this sort of thing, what will work in Alaska. So we contacted him and within a few weeks when the oil thing came through, he no longer talked to us at all. We couldn't get him on the phone, couldn't do nothing with him.

So this is part of the whole program. It (indiscernible) way back then, way back during the oil pipeline days. They eliminated the plant materials center, they're taking jobs out of there, so we don't have no way of saying alfalfa won't work here. What do you mean it won't work here? We got corn that's going up in Quebec now for crying out loud. And so there's – you can take Northrup King or any of those other places will grab some of this stuff, bring it in here and try to work with this here (indiscernible) thing. So that we do have alfalfa here.

And you mentioned oil seeds – I'm sorry, I'm rattling this off. But it just – I couldn't take it no more. Oil seeds can be done here and we can do it. The technology's here. Our – is the grants available for us here, federal grants? Some of them, no. They're Outside, but we can't get them here because we don't qualify for these grants. Oil seed is one of them. We can use the byproducts off of there both ways, not only for oil but also for the byproduct itself for feeding back to livestock. That will help cut our expenses from bringing products in, make the dairy business more profitable.

For ourself, we've gone out and got soybean meal. We cannot afford to buy it at our local co-op anymore. It's $700.00 a ton. We pay 200 out there and it sure don't cost us no 500 to get it here. And then we have – we're starting so that we have back hauls now. We're going out with the back haul, coming back in with the products that we need.

Chad Padgett: I don't disagree with anything you just said, Don.

Don Lintelman: This is what we're trying to do and it can be done. Oh, it certainly can be done. But we have to have the university to do these plant material things, to do this thing off – we need the whole program. The Lower 48's got it. We don't have it. That's the reason why because it's cut way off.

Chad Padgett: That's exactly what I – you're right. And that's exactly what I was talking (indiscernible).....

Don Lintelman: And that's why you're in the situation you're in.

Chad Padgett: Right. And there are grant – I want to let you know there are grants for oil seeds, but there are grants. Rural Development has those.

Paul Huppert: For Alaska?

Chad Padgett: Oh, sure.

Don Lintelman: That's what I'm saying.

Chad Padgett: (Indiscernible).

Don Lintelman: We have to (indiscernible).

Paul Huppert: You know, I'd like to comment. You were talking about these decisions. You know, I was chairman at the dairy board at that time. And at no time was I ever invited to any of those, and neither to my knowledge was Joe at those times.

Unidentified Speaker: One.

Paul Huppert: But Matanuska Maid.....

Chad Padgett: That's not true, first of all, because we did – I sent the invites personally.

Paul Huppert: To me?

Chad Padgett: They were sent to the division.

Paul Huppert: Well, they never did get through to.....

Chad Padgett: However the division handles things, I don't know.

Paul Huppert: John Torgerson never sent. But let me ask you another question.

Chad Padgett: Well, that's not my problem.

Paul Huppert: Well, anyway, I just want to clarify it.

Chad Padgett: Okay.

Paul Huppert: Matanuska Maid was a co-op and it was being preserved during this time. I was on the Ag Action Council at that time when the lands in the Matanuska Valley were disappearing into subdivisions.

Chad Padgett: Right.

Paul Huppert: To hopefully, at that time – it's like everything else – what you get first the processing or you get the production.

Chad Padgett: Right.

Paul Huppert: Now, I think that Matanuska Maid was rightfully preserved and I could go back as a co-op. And I'll tell you that bringing in milk from Outside preserved the market and it still has a market. And as local production goes up, that Outside milk goes down. And the fact of the matter, it's been an assistant to this gentleman here.

Chad Padgett: Sure.

Paul Huppert: And if you think that you can start a processing plant and go out there with the present day market, I think everybody better go back to two cows per dairy.

Chad Padgett: Well, let me put it this way. Nobody's disagreeing with what you're saying. I'm not saying bringing in Outside milk is bad. Okay. I'm not saying that's a bad thing.

Rex Shattuck: That's to hold the market, that's all it's for.

Chad Padgett: Okay, that's fine.

Rex Shattuck: And we're doing the same thing.

Chad Padgett: That's fine. But number 1, everybody was invited to the table.

Paul Huppert: No. To this table.

Chad Padgett: No, to that table as well.

Paul Huppert: I was not invited.

Chad Padgett: Well, what I mean by that, the state Division of Agriculture, which should have given you the invite – I'm sorry it didn't happen. I don't know how things were running at the time. But anyway, we did invite everybody including Joe to the table then and we've continued to do that. So I want to make that clear. We've been – we've talked a lot about this stuff. And I don't disagree with anything you guys just said about bringing in outside milk. That's what I'm driving at. What I'm trying to get at is what we needed was a – some sort of an agreement on how do we transition and get to a privatized situation.

And the reason we look at that is because I look at my own agency. Because of the political makeup and the appointments that we have – remember I also have a state committee. I didn't talk about that. They are also political appointees. The only two I have on right now are Jeanette James from North Pole and Bill Ward from Delta Junction. So that's another level, another couple of people that we bring in. Those are the political appointees that oversee our farmer elected county committees.

So we do put a lot of people at the table on this stuff. And what you were just saying about the grains is absolutely correct. We need to solidify the feed base as well. And that's critical to anything. So it's not one aspect. You can't take dairies or dairy processing and exclude them from what happens all the way from the feed production up. You can't do that. It has to be a pretty broad model. So that's why I say we looked at all these things. And I'm not – like I said, I wasn't saying we're right.

Rex Shattuck: Let me make sure that I understand the conversation we had towards the end of your briefing because it seems we've kind of gone off in some different directions from that. What I understood you to have said was that one of the thoughts coming out of that committee, if you will, was that privatization of the production facilities was a good thing.

Chad Padgett: Right.

Rex Shattuck: And that was not argued too much by anybody.

Chad Padgett: Right.

Rex Shattuck: In fact, Matanuska Maid is evidence of that because it is a private production facility, albeit its shares are owned by the State of Alaska. That in of itself causes an awful lot of the difficulties in understanding the process.....

Chad Padgett: Correct.

Rex Shattuck: .....I think in the conservations that I hear. You know, here you have a private enterprise whose shares are owned by the State of Alaska.

Chad Padgett: Right.

Rex Shattuck: Is there anyplace else that you can think of in the country that that occurs?

Chad Padgett: No.

Rex Shattuck: Okay. So we're an enigma in that way. That 650,000 as I understood was to be – and I – it would be really interesting to know how it dropped from a million as I think I heard said to 650,000. Quite a depreciation in terms of.....

Chad Padgett: It was a formula on the federal budget.

Rex Shattuck: Okay. Wow. Who got all that – who got all the other.....

Chad Padgett: Pretty much it's been on the war effort.

Rex Shattuck: Okay, okay. But the thought was going to Rural Development, an area where here you have the ability to look at business as business, not necessarily just as agriculture.

Chad Padgett: Right.

Rex Shattuck: And see is there the potential to create an opportunity, not – it doesn't sound to me like in competition with Matanuska Maid, but also a supplement to that production of dairy products going out of into the public sector. And the thought was – we heard the farmers say that they had some discussion, but task saturation has prevented them from being able to bite into that and do anything in terms of a co-op.

Chad Padgett: Right.

Rex Shattuck: So that's where I am in terms of understanding. And then we started talking about bringing in milk and all and I was trying to get a handle on that and understand why we got into that.

Chad Padgett: Yeah. You summed it up pretty well there, Rex. What -- and that's all we were looking at is privatization. What form or fashion that fell under. We didn't know and that's what we were asking everybody to provide as a business model for that, a business plan, how do you get there. I'm not going to stand up here and pretend to know what Don or Joe's got to deal with as far as a marketing end or anything else. The idea was we needed everybody at the table to do it.

Now the other thing, and I'll tell you this is the other part with the federal monies that have been done up to this point. The other conflict with that is how are you, if you're going to use federal funds for this, how are those federal funds going to be used to support the actual industry and the producer? Okay. A couple of things that have happened that have shown the state's not interested in support of the producer. And, i.e., this gets translated through Mat Maid as well. You drop the price of milk. Am I going to lend anybody in the dairy industry now money that's new? No. It won't happen. You're at what, 16.94, Joe, is that the new price?

Joe Van Treeck: That's – yeah, it floats every month, so that's what it is about this month. Uh-huh (affirmative).

Chad Padgett: Okay. At $16.94 there's no way I'm going to lend money to anybody in dairy. So forget about anybody new coming in. The financials don't work.

David Wight: Clarify that, would you? Anybody new, existing people?

Chad Padgett: We're not lending money existing either. We're servicing debt.

David Wight: But that's a different story.

Chad Padgett: What?

David Wight: You've got a higher price.

Chad Padgett: Right.

David Wight: It's not the price issue for existing dairy operators.

Chad Padgett: No. Well, it is to a certain extent. The only thing is you've got $500,000.00 that was stuck out there to augment and solidify the dairy production. When that runs out, it goes back down. The price that they're going to get is going back down.

David Wight: I understand.

Chad Padgett: So I will tell you this – this is another reason it's important to talk about this. Within the next year, as far as FSA debtors, I don't see a dairy farmer in FSA that will have FSA debt. Within a year.

Paul Huppert: You mean in Alaska?

Chad Padgett: In Alaska.

Paul Huppert: How about Outside?

Chad Padgett: Oh, I'm sure, yeah, Outside. I don't know what the numbers are down there. I mean, I'm just talking Alaska. You will have nobody that's going to have an FSA debt in dairy as the situation stands right now.

Mac Carter: I guess I'm missing something in that and something doesn't quite sound right.

Unidentified Speaker: There will be no dairies in Alaska, that's what he's telling you.

Chad Padgett: Yeah, what do you mean?

Mac Carter: Oh, is that what you're saying there's not going to be any dairies, is that what you're saying?

Chad Padgett: As far as FSA debtors, that's correct.

Gail Phillips: So you're planning either foreclosure on anybody that has an FSA loan at this time and no issuance of any new FSA loans.

Mac Carter: Because they can't survive without.....

Chad Padgett: They can't survive it.

Ken Sherwood: How many are there with FSA debt?

Chad Padgett: I hate to use numbers because it's so small and then it's pretty easy to figure out who's got what so I avoid that. I would tell you what I – that I can honestly be held for violating privacy just because the numbers are so small. So and this is not something that hasn't been known. So I mean.....

Mac Carter: Ask a question, how is it done Outside? Are they doing the same thing at this point in time?

Chad Padgett: They have a different situation. I have no idea.

Mac Carter: Well, what.....

Chad Padgett: I mean, what the trend is, is that what you're.....

Mac Carter: Yeah, what's the trend?

Chad Padgett: Actually, our loan portfolio nationwide is at a pretty well stabilized trend. It's not going up or down. It's pretty much stabilized right now. Now how that relates to dairies, I don't know. I hate to venture a guess.

Paul Huppert: Don't they base it on the price of milk out there?

Chad Padgett: Sure.

Paul Huppert: They do it here. You know that's the market force.

Chad Padgett: Wait a minute though. What you got to understand what I'm getting at when ours were done we're at $21.00 a hundred weight, that's the price that was used with the ones that we've already got. So and that was a stabilized price. So because of all this flux – I mean, we're in a different situation here where you've got a stabilized price; that's how the loans were made. And long-term loans, 30 years.

So if you think about that, you had a stabilized price at that time. Okay. That's when they were made. Now the situation's changing. Yeah.

Rhonda Boyles: Chad, I'm confused. That's not hard, but this is Monday morning. What I just heard you say is the loans were made at a stabilized price.

Chad Padgett: Correct.

Rhonda Boyles: But are the producers receiving less than that now if they are existing?

Chad Padgett: No. They're receiving more. But a couple of things have happened. Look at your production costs, they've gone up. So if you look at your production costs – and remember what I said earlier, this is why I said that it is important to remember this, your production costs have gone up; you've had a stable price. I'm not going to talk about down south. I know the prices fluctuate down there, but they do it on a trend.

Here, you've had your stabilized price, your production costs going up. When now those production costs have exceeded the price. I mean, it's just – that's as simple as I can make it. So because of that even at $21.00 a hundred weight, these guys will tell you, there's no way they can make it.

Rhonda Boyles: So how do we grapple with this issue without numbers? Am I – how much would it take to keep these guys in business? Obviously, you're going to make some pretty hard decisions here in the next 12 months. And we need to know how can we keep them business, how much it would cost? Is that a question we ask the producers?

Wayne Brost: I can answer it for you.

Rhonda Boyles: When you testify, you can.

Chad Padgett: It's actually not that much money. It's with – and it depends on how you deal with this. Do we do it for – or not just our portfolio, but everybody? And this is where you get down to that equitable issue. But if you're talking – I'm talking the difference between state and federal loans. I don't know what the state has. I know what we've got. Okay. So that's one question that's raised.

For us, it can be easily resolved with oh, roughly $2,000,000.00 done. And it's – that's actually pocket change on the federal budget. So that's why this has been so puzzling.

Rhonda Boyles: So 2,000,000 will pay off their loans, 2,000,000 to get them to a level where it's livable?

Chad Padgett: Two million pays it off.

Paul Huppert: You know, something I don't understand is you just said a stabilized price. And yet if that market trend goes down, then you think the processors should subsidize that price up to the stabilized price.

Chad Padgett: No, I don't think that.

Paul Huppert: Well, that – to keep a stabilized price, somebody has to subsidize.

Chad Padgett: Well, that's what we were talking about. And that was how do you do that.

Paul Huppert: Well, what I'm getting at is that processor whether they privatize it or it's Matanuska Maid, when that competitive price goes down that affects your ability to market the product.

Chad Padgett: Sure.

Paul Huppert: And if you can't put it on that shelf, you're not going to sell it. In fact, I think it's very obvious today that they're priced too high.

Chad Padgett: Right. And I don't – I'm not disagreeing with that. All I'm saying is how do you solidify that production base? Do you do it through the processor, do you do it through the feds, do you do it through the state? And what we've done up to this point is through the feds and the state. So that's why this whole question keeps coming back around because I don't think anybody – any of us expect Joe to take it out of his money and put it in there. That's not what we're asking.

Paul Huppert: Well I think that if we'd had a little more cooperation on working on this, we'd of understood that, I believe that there would have been a better chance of that 25,000,000 been coming this direction.

Chad Padgett: Well, there was ample opportunity for that. The problem is, it's too late. I mean, that -- that's off the table so why – I don't know why this issue keeps coming up because that's – it's too late. It's just a moot point.

David Wight: Can I go back and clarify something you said, a couple of things that resonate in my head. One is, if I heard you right, all of the loans you've got out there are going to be foreclosed in the next 12 months.

Chad Padgett: I don't know that they'll be foreclosed.

David Wight: Well, that's what I heard you say so I wanted that out there. The second part of it was, you say that's because the costs exceed the price.

Chad Padgett: That's one issue.

David Wight: Okay. Now I need to know what you mean by costs, is it operating costs, or is it.....

Chad Padgett: Operating costs. And it's.....

David Wight: And it's not loans, all this stuff, it's operating costs.

Chad Padgett: You have a mixed bag. In some – in fact I just talked to a dairy that doesn't have debts with us and they told me the same thing. The production costs have exceeded what they can get out of now. So when this $2.00 a hundred weight raise comes off, they don't think they're going to be able to afford to milk any more either. So it's everything from fuel costs to transportation of equipment. You know, you got to keep up your equipment. A lot of guys will have to fly in mechanics to keep up. You don't have that type of infrastructure here that's localized down south. And that's really important. So it's that as well as the debt loads. Both state and federal, the debt loads are high. So you've got a mixed bag.

Rex Shattuck: While we were talking about operating costs, that's – the equipment that you have, there are not significant outlets in the Valley or in Fairbanks that can service your equipment?

Wayne Brost: You're on your own (indiscernible).

Rex Shattuck: Rappe (ph) or any of those that.....

Wayne Brost: You're on your own, period. There's no DeLaval, there's no Surge, there's no none of these, nobody. You're on your own. There's no infrastructure.

Rhonda Boyles: Are we done there? I didn't want to interrupt Rex. We're done? I just chatted with Chad. His water's almost gone so we have to give him a break. And even though he has a little bit more on his presentation, if you have any questions, think about them while you have a cup of coffee. And then we'll bring him back to answer any questions. And Chad, if there's anything pertinent in your report that we need to hear, you can take some time after the break.

Chad Padgett: Sounds good.

Rhonda Boyles: Okay. Thank you.

(Tape change #2)

Rhonda Boyles: Chad is willing to answer any additional questions you may have before Candy comes up and talks to you a little bit about the same subject from the state's perspective. So do we have any additional questions?

Ernie Hall: Yes. I – during the entire break I've been trying to follow the logic of this $2,000.00 cow that's only worth 400 up here. I don't understand the depreciated value of that cow.

Chad Padgett: Okay. Let me clarify that a little bit. This is kind of a tough subject to put your mind around because it took me a while. Basically, when you're looking at it, if you were to go buy a cow and looking at a Lower 48 market. Now this is – remember, this is back in time before the border closures. So I'm just using this as an example. But if you had to go down and buy a cow and that's going to cost you $3,000.00. And then you bring it up. I'm not sure what the transportation costs would have been at that time. But most of our cows came out of Washington State or Canada somewhere.

So with that being the case when you're making that loan to begin with, that's what you're going to take into consideration to begin with because that's a cost. But on the servicing end of that, okay, if the government, if we have to go out and sell a cow here – say we foreclose on somebody and we got to take those cows and try and get rid of them, we don't have a market. Whereas like down south, you would have a market for that cow. Say it's still a milking cow, you're going to be able to sell that at the market price, which is going to be much more than the cull price. So you can transfer that cow out and still get a security value out of it. Here, you don't have that option.

You don't have folks buying and selling cows at auction like you do down south. Okay, so that's one element to it. Does that make a little more sense?

Ernie Hall: So – but you're considering the value under a default circumstance.

Chad Padgett: Correct.

Unidentified Speaker: Yeah, because it's based on the Lower 48 price.

Chad Padgett: Yeah.

Wayne Brost: Could I speak to that a second, Chad?

Chad Padgett: Do we have time? Okay.

Wayne Brost: Not even default. Like right now, if you can find somebody that wants to 225 dairy cattle, bring them to me immediately. There is no market. And I am still not in default. And now with this tier 2 system, you have devalued my dairy even farther. When the board of directors and Joe Van Treeck put in the tier 2 system and that second – which I'll speak to later to testify as a producer. But the thing about you don't have to be in default; you still can't sell your cattle up here. There's no market.

Chad Padgett: Yeah, so – and what – I think what Wayne's referring to, the other thing that we'll do is we'll ask people to liquidate their cows. That's another option that we have. You know, maybe if you took the cows out and you were just producing hay, you know, maybe you could make it. But in order to do that, you got to liquidate that asset. So we're looking at that cull prices are liquidation value.

So you can't solely base our decisions on that servicing end. But that's been the whole trend. So we've got to bring some parity between those two things so that when we're making loans, we've got a more realistic Alaska value placed on that loan rather than a Lower 48 price. Does that make a little more sense?

Ernie Hall: Well, I understand exactly what you're saying. It doesn't really make sense to me, but I understand what you're telling me.

Chad Padgett: Yeah. I'll apologize because I – the part of the other issue here is understanding how we work through our regs. Believe me, I've been there six years and it's tough, it's really tough to figure out how our regs actually operate.

Gail Phillips: As a person that grew up in Nome with no knowledge of the value of a price of a cow, wouldn't a cow that has been in the dairy market for four or five years and then it's time to retire that cow, wouldn't that cow have the same value in the Lower 48 as it does here because it's no longer able to be a dairy cow? So the price for that cow after its effective life use is over should not be any different in the Lower 48 than it is here in Alaska.

Chad Padgett: Well, it doesn't – what you're talking about is once you've milked it through its lifecycle. What we're talking about I cows that haven't – I should have clarified that earlier. Cows that haven't completed that lifecycle yet. So that's where it's really hard when you're making that decision on the loan. And they were solely based on a Lower 48 inflated price when they were made. So that's why we're having such a problem servicing these. And when you look at it on the back end for security purposes, what should have been taken into account was that security value. So when we were making the loan that's what should have been considered was that security value. So that's what they do do down south in our agency is they take that as a security value, or they secure it with something else. Maybe I've got other assets that can be secured. So maybe I didn't clarify this enough.

We didn't have a good security value to begin with in a number of our loans. So we're not going to be able to save as much as we could have been had the loans been done properly and somebody defaulted. We're not going to be able to protect the taxpayers' interests as well as we would have had they been done on a security basis. Is that a little bit better?

David Wight: Yeah, as I hear you it's – if you've got 200 head of cattle whether in the middle of their cycle in the Lower 48, you might get $2,000.00 or somewhat less than that.

Chad Padgett: Right.

David Wight: Up here, you're going to get four or $600.00.....

Chad Padgett: Right.

David Wight: .....which is the cull price and that's it.

Chad Padgett: Right.

David Wight: Because there is no other market.

Chad Padgett: Right.

David Wight: And then what I also heard a producer say that with the two tier price system it says that no new person can come into the market so if a current producer wants to get out of the market, nobody else will come in and so there is no market for the cows.....

Chad Padgett: Right.

David Wight: .....other than at a cull price.

Chad Padgett: Right.

David Wright: I think I heard that.

Chad Padgett: And back to the question earlier too where somebody asked about the stable price. You know, down south, yeah, it does fluctuate. And somebody has asked about that stabilized price here. Well, when you add not only the stabilized price but the inflated value of the Lower 48 cow on top of land pricing, that's where you get folks into pretty hefty debt.

You got to take a number of these factors into account. So if you're relying on that stabilized price and you're not accounting for that security value on the cow on the front end of this loan, already you've set somebody up for failure to begin with. Then you add a land price and this is something else I didn't mention yet in my presentation. But if you look at the land price, if you looked at it for an agricultural, economic value, okay, and this is a big debate. But if you're looking at that land price, which is something we have to do for programs like CRP, we have to have a soil rental rate in our Conservation Reserve Program. We set that rental rate at $50.00 per – excuse me -- $35.00 an acre. And it varies between 35 and 50. Now if you're going to go out and buy land – I forget. Larry, what was your last land sale? What was it.....

Unidentified Speaker: On Tract 17.

Chad Padgett: Seventeen hundred an acre?

Ray Nix: 1.45 million for the land the improvements and it was a 612 acre tract.

Chad Padgett: Okay. So if you take that type of price, typically what you're finding in the Lower 48 is they put an agricultural value on that. So even though we haven't reached a fee simple value in our ag lands, if you're looking at it for what is currently grown and what the economic value – for instance, grass hay at Point MacKenzie, you're looking at very soil type, a very low economic value in agriculture for that hay if you really boiled down the numbers. We figure it's somewhere around 150 to $300.00 an acre.

So when you get into these – into the loans on the front end, it's such a high value that there's no way you can service that debt, especially when things change. So another message I intended to bring here is that barring anything changing, it would be a big stretch for us to make any kind of loans in the dairy industry because of – now the change in the pricing and even though that's going to fluctuate some, the high cost of production. Now we're taking into account all the infrastructure needs. The feeds, the implements you would need, all of those things that should have been taken into account by FSA to begin with, we are now doing.

The other thing I think you need to understand is that we've completely – most people know how hard it is to – or at least have the impression it's pretty difficult to fire federal employees or remove them from service. We've gone through 15. And most of it due to this loan situation. So you have to understand that the way these were done before, that's what we're dealing with now. And that's why I say within the year, we're going to have more actions taken. And it won't be just in dairy. It's coming fairly quick.

Wes Eckert: And twice now you've referred to the change in pricing formula and I missed what you're talking about there.

Chad Padgett: What we're talking about is new – Joe can explain it better than I can, but the new – right now you're with the $2.00 a hundred weight, what are they getting, 20, 21?

Wes Eckert: Well, the other day we figured just maybe 23.57 with all of the add-ons that they get.

Chad Padgett: Okay. So now with a – if a new producer comes in they're under a new pricing structure. So if they get a new permit, that's what we were talking about this morning, the $16.94 is what a new producer will get.

Ken Sherwood: It's tied to the M and W (indiscernible) currently because prices are depressed Outside. The prices sunk that far down.

Joe Van Treeck: But the original guys keep getting that. It doesn't affect any producer that was already in business before an effective date.

David Wight: That's where I'm puzzled. So you talk about the change in price, but the price hasn't changed for the parties you're talking about in terms of that have the loans.....

Chad Padgett: Right.

David Wright: .....and have the dairies and everything. So I get lost in that conversation.

Chad Padgett: Okay. What I'm getting at there, even though their price hasn't changed, the debt loads were so high wh en these were originally made, it should have never been made the way that they were.

David Wight: I understand that.

Chad Padgett: Okay. So it wouldn't matter – if you're at 21 or $23.00 a hundred weight, we can't service a – we won't be able to service the debt when that $2.00 comes off. The financials just don't work.

David Wight: Okay.

Chad Padgett: So – and that’s why I talked about the increases in the production costs and those type of things. So because of those things – that’s why existing isn’t going to work. Now you expand that out to anybody coming in new and they’ve got an even more reduced price, there’s no way the financials work on that. There’s no way to make that work unless it’s a cash buyer.

Ken Sherwood: Well, what’s the number that would make an existing loan work?

Chad Padgett: We’ve – I don’t know that we crunched those lately, but the last time we ran it, it was like about $25.00 a hundred weight. And you know, and this is where we get into debt loads per cow. We talked about some having 10,000 in debt per cow. You know, it might even be higher than that now, Ken. Mainly because where you going to get the animals. At this point, the only way to get a milking cow is either to bring it across the water at a high cost or wait until one of these guys goes out of business and take them. So I just don’t see – that’s something that I think – probably one of the bigger questions that I can bring you today is do you support – you know, do we want to continue to support with the existing producers knowing that there’s a very little chance that we’re going to get new people in, or do you just not have the industry at all, or do you take the gamble that you’ll have new producers? And that’s why I don’t like coming here to sound like I’m complaining because we did bring some solutions to the table. But I think these are some questions that need to be answered. And if the answer is, we can’t support an industry in the state, then I think that they deserve an answer, they deserve that answer.

And I think these guys will tell you, we’ve always told them, if it’s not going to work, we’re going to tell you. So from our end of it, that’s what we’ve had a lot of talks about on the producer end. Is it’s just plain not working. So we need to change the situation. How that’s going to relate to the support of the industry from here on out, I don’t know. Larry, did you have a question?

Director DeVilbiss: I did. Last month Secretary Johanns’ undersecretary told us that he would definitely submit a farm bill. Has he yet or are they still deciding whether there’s going to be an extension?

Chad Padgett: There’s – that’s still in flux. Now the department can’t submit a farm bill. So all we can do is comment on the farm bill. So that has to be understood. The secretary has submitted comments on the farm bill. Now it’s up to Congress whether or not Congress is going to pass a new farm bill or roll over the existing.

From the producer end of it – and you got to remember these are big commodities talking down south – they like the current farm bill. And it’s done more to corporate type production and more – a little bit more corporate support. So the individual, small guy is looking for that support in the farm bill, but probably doesn’t have the lobbying power to get it there. All the big farm organizations are saying roll this over. So then you’re looking at 2008 instead of 2007.

So at the earliest, the farm bill would be passed by next October. I think that’s a very optimistic view. Then you might be putting it in 2008, which would be October of 2008. By the time we get to implementation of that bill, whether it’s

2007 or 2008, you're looking probably another six to eight months before implementation even begins. Dollars hitting the street, you're looking almost a year down the road from any bill passing before dollars hit the street.

That's why I say this is a pretty grim situation, even with the federal farm bill that has an Alaska and Hawaii title to it, which is something that Senator Stevens and the delegation have wanted to put in there. But they might be trumped by bigger agricultural interests. And I can guaranty you one of the things that they've been very careful about on this cost of production, they don't want folks down south getting their hands on this. So far it's Alaska and Hawaii.

The way we came up with it, a federal employee like myself gets a 25 percent cost of living allowance in Alaska. That's any federal employee, non-taxable. So the reason we came up with this is if it costs me that much to live here, why not roll that out to the producer and say, okay, the producer is also going to get a 25 percent of cost of living allowance. Same concept.

So it's hidden. You don't see that 25 percent cost of living allowance in there. It refers back to the old statutes. So that's why this is has been somewhat – well, it hasn't been quiet within the state, but what they're concerned about is that another state will pick this up and due to rising production costs, fuel increases, things like that, another state will want to put that in there. Then it becomes so cumbersome you can't – it's too costly. It will die on the vine.

Rex Shattuck: The discussion took place last week about – and I don't remember the correct terminology. But I think it was addressed as far as the DoD was looking at a regional purchasing for their commissary (indiscernible). Is that type of issue get addressed in the farm bill or is that separate legislation?

Chad Padgett: That's separate. That's all separate. What we're talking about in the farm bill is typically your big US commodities. You know, livestock, grains, oils, seeds, all that good stuff. And that's one of the reasons we wanted to change the situation specific to Alaska so that anything Alaska grown would qualify for Commodity Credit Corporation support, thus stabilizing the price and actually encouraging production.

That's another trend that you see right now in our existing farm bill. And it's constantly gone this way since 1996. You've got a big conservation element. So because of the conservation element, it's geared more to taking lands out of agricultural production, setting it aside for wildlife habitat and benefits, things like that. That's been the nationwide trend. That has been implemented – we talked a little bit about CRP last time. That's the Conservation Reserve Program.

The trend is to go to more programs like that. Environment quality incentives, which NRCS runs, is pretty big in the state right now. In fact, I think last year they had – they've had somewhere between seven and $12,000,000.00 depending on the year to run in that.

Don Lintelman: Is that carbon credits give during that time?

Chad Padgett: We don't do the carbon credits.

Don Lintelman: Because there's two ways that can do that, through grass and also digestive system for the farm.

Chad Padgett: Right.

Don Lintelman: And then they can utilize that for energy on the farm, for electricity or for heat.

Chad Padgett: Right. And that's something else that we've been trying to encourage, in particular in the Delta area, is to get some biofuels production going up there. We have a program – again, this comes back to Rural Development and us. This is a good potential for increasing in production because we thought a lot of the CRP ground might come out of there, how do you offset that? Because we could literally crash the industry.

Again, inflated figures were used in Delta Junction for cropland basis so we're in a very tough bind there as well. That's why I say feeds and dairies are fairly well tied together. So we could crash the industry very quickly in Delta Junction if this CRP thing is not handled correctly. That's something I'm trying to work through right now as well.

So one of the things we started two years ago was to work with those folks to look at what were the potentials. Through Rural Development, there is a grant program to get oil seeds, like canola, rye grass, there's a number of things that you can use. Even willows is another thing that they've dumped a lot of money in. But there's a grant process for that through Rural Development to give the capital costs to actually getting a facility put in.

Then what we do with the producer, if they actually are farming the oil seed, or a cellulosic crop, which could be willow, will pay up to 7-1/2 million dollars per year per producer for increases in that production, but it has to get up and started first.

Don Lintelman: There again when they had the co-op and feed grains out there available, there was one industry that was willing to buy all the grain that was in Delta and use it for ethanol. And used a straw to produce the ethanol. Now Fred Drew, he isn't here, but he may know the company that was trying to put this in because they're going to utilize a co-op as a storage facility and put the plant next door. And they were going to put more water in the ground than taking out at the time. But then there again, we need to find out about what company.

I was on the board at the time. And some of that stuff was going over my head because it was coming in so fast that you couldn't put it all together to make it work.

Chad Padgett: You bet. Sorry.

Rhonda Boyles: Thank you, Chad. And I think that one of the most critical times that we will have as a group trying to move this forward is probably the next meeting next Tuesday. And I would hope that Chad, you could somewhat be available for any questions, that type of thing.....

Chad Padgett: You bet.

Rhonda Boyles: .....during the brainstorming.

Rhonda Boyles: Same subject, different perspective, State of Alaska and Candy Easley. I have to say this, I don't need to go on in introduction. You'll see before she ends her presentation the skill level in which the Division of

Agriculture has handling their little portfolio. I've learned to appreciate Candy's candid answers at times of – and difficult decision-making. Candy, thank you. I'm going to slip out for a moment to go move my car.

Candy Easley: After you gave them that warning?

Rhonda Boyles: Do not be scared to ask for anything. You will get an answer. You might not want to hear it, but you'll get it.

Candy Easley: My name is Candy Easley. I am the loan officer for the Agricultural Revolving Loan Fund. I say the because when I came there 18 years ago, there were five of us. So I'm it now. But I've been there 18 years. Prior to that I underwrote loans for the state at Alaska Housing. And prior to that, for more years than I want to admit, I was a mortgage and commercial loan officer for commercial banks. So I'm an old banker, you can assume now.

I'm going to give good news and bad news. I think that you're probably going to figure out which is which fairly quickly. I'm going to just briefly tell you for the benefit of those that aren't familiar with ARLF what it is. I see three previous borrowers sitting here at the table, all excellent borrowers. So some of you are familiar with the ARLF. It was established in 1953 and I looked it up to make sure what its statutory purpose read specifically. And it says it was established to promote the more rapid development of agriculture throughout the state by means of long-term, low interest loans. And so we were established over 50 years ago to promote the rapid development of agriculture, dairy included in this state. And I'm prejudiced, but I think we've made a lot of efforts in doing that, even with our failures.

I passed out this morning just a brochure that gives you detail on the program. But at this time, ARLF's program is five percent all loans, or five percent interest, fixed rate, no fees, maximum term 30 years, limited to 75 percent loan to value of the collateral. And while it's fresh in your mind, because I said limited to 75 percent loan to value of the collateral, with regard to livestock loans that you were just talking about, when I do a loan on livestock, whether it's beef or dairy cow or hogs, that loan is based on 75 percent of its slaughter value. Not what they paid for it in Washington or Palmer because the old banker says if it fails, what is our recovery. And our recovery, no matter what stage that cow is in, is going to be at the slaughter plant.

Now the state makes absolutely every effort to keep milking cows milking. So at any time that we take back dairy cows, we hit the road and try to get them into the hands of dairy people at the best price that we can. Barring that, because it is absolutely true, because it's a limited market for dairy cows, they go to the slaughter plant and that goes to the recovery of the loan. So that is how the ARLF underwrites livestock loans, slaughter value.

And I got off track, but I wanted to mention that while it was fresh in your mind. Did you have a question? No. Okay.

Unidentified Speaker: I've got it.

Candy Easley: The loans, I will say standard underwriting procedures are used with the understanding that ag loans are high risk loans. Commercial banks aren't interested in doing them because they are high risk loans, so on occasion they'll do them. But the reason ARLF was established is to promote the development of ag in this state. They had to establish their own loan fund in order to do it because the banks weren't going to do it. And they won't do it today.

Included also, what I passed out was a rate sheet and a very, very brief description of the other ag lenders in the state. I do that rate sheet every month for the Board of Agriculture. They are the authority that sets the interest rates for the farm loans. And so I give that to them every month. But that five percent rate, that's been there since I think '03. They really – the rate doesn't fluctuate much. They make every attempt to keep that rate as low as they possibly can. And understand that ARLF, we don't get interest on our money. That's general fund money that is in our nest, but when it's sitting there waiting to be lent out, we don't get the interest. So we're better off lending it out as long as we do it in a responsible way.

Let's see. So now I'm going to give you just a little history here on our funding because you're going to see why that's very, very critical. When I first came to the ARLF 18 years ago, the portfolio was 85 percent in default. I worked with four attorneys. I made very few loans. Most of the time I was working on bankruptcies, and litigation, and settlements and it took years to settle those things. And the majority of it was from what we'll refer to as the project loans, Delta barley project up north, Point MacKenzie dairy project here in the Southcentral. And unfortunately, even though those have been settled for quite some time, we still suffer a credibility problem because of them.

But, you know, the ARLF today is in excellent condition. It's less than one percent in default. And we originate very sound loans. We haven't done much in charge-off in years. So those defaults were the bad news. The good news is the ARLF is in pretty good shape right now.

Wes Eckert: So were most of those loans just written off?

Candy Easley: On the projects?

Wes Eckert: On the Delta and the Point MacKenzie early on?

Candy Easley: Yeah. Uh-huh (affirmative). Yeah. I'll show you some figures here.

Wes Eckert: What year was that?

Candy Easley: Let me show you these figures and I'll – and it will become real clear what happened when. So let's see, 1953 to 1986 – I'm not a very good – we all get used to word processors. This is how much money was appropriated to the ARLF during that period of time, $71,000,000.00. It was established here and to this period of time, 71,000,000 was appropriated. Of that amount, 67,000,000 was essentially during the project period. So that was the big – and that was 1980 to 1986. Oops.

So we had lots of oils revenue in the state, wanted to promote ag development and a whole lot of money was dumped into the ARLF. And a whole lot of money went out of the ARLF. In – you know, and it's not going to do a lot of good now to discuss and debate what was good intent and what was bad because there's nothing we can do about it now.

So depending on how you look at it – I guess I think it in a positive way, this was a pretty big commitment from the state, pretty big investment. And so I guess I considered that a good news kind of thing. So from 1987 after this to today, total appropriations – now I'm only talking the ARLF, not the Division of Agriculture. But we're the major ag lender in the state so I think it's relative to say that what happens with the ARLF is pretty relative to statewide what's going on with that agriculture. Total appropriations from '80 – 1987 to 2006, zero. Nothing.

Now, I consider that kind of bad news that for 20 years there's been no appropriation to the loan fund to promote the more rapid development of agriculture. I forgot to tell you there's a third category. I've got good news/bad news. Here's the worst news. ARLF today in the bank, so to speak, has less than $4,000,000.00. If nothing changes, which we all know changes happen, but if nothing changes, if I loan about the same amount of money, if the meat plant just takes the losses that it does, if Joe doesn't need money for Mat Maid, if I don't have a big foreclosure, big bankruptcy, if nothing changes and the same draws go out, this is only going to last two more years. We're out of business. Two more years. It could last a little longer; it could last even less. I'm assuming – those projections are based on absolutely nothing happening. Any questions on those figures?

Joe Van Treeck: Is there another category in all this? How much was re-appropriated of the 67,000,000 back to general fund?

Mac Carter: Nothing.

Joe Van Treeck: During the period of 1987 to – or 1987 to 1990.....

Candy Easley: Oh, what's been – yeah.

Joe Van Treeck: .....what – how much of that 67,000,000 was sucked back out and put back in the general fund?

Candy Easley: I'm going to cover a little bit on what's drawn out. And – but you do have to balance it with that – I ask – oh, by the way, Cathy Poulos and Bonnie Bladow, the lovely ladies sitting in the rear, I depend on so much. They're our accountants in the Anchorage office here. And so I sound like I know what I'm talking about. But it's really based on all the great stuff they give me.

This morning, and I said to them, knowing I was going to tell you this, I said, I kind of think I know, but just give me a round number in millions what we've charged off. 28,000,000. 28,000,000. But you need to understand that when we pushed all this out, we took some of the collateral back. We used to have two equipment sales every year. We haven't had one in several years now. So we would sell the equipment, we'd sell the land. Certainly, there were some settlements. We didn't always take back the collateral certainly. But so in that the 28,000,000 is the estimated total amount that the ARLF has charged off since – did you have a year? The bulk of it's going to be from the projects. Remember, Bonnie? No, probably.....

Bonnie Bladow: The beginning of the spreadsheet of like 1989 or something.

Candy Easley: There were – ARLF in the beginning did a lot of small – I mean, the bulk of it's from the projects, 28,000,000. But that is based on what went out and what we recovered back. So it's sort of a net effect. We certainly lost 28,000,000. But again, this is only ARLF. That didn't count charge-offs by the state, by Division of Lands for all the land they sold because they were usually in first position. This is only ARLF losses and I say that because there was lots of other losses too. But it is relative, because we are and were then and still now the major ag lender in the state.

Wes Eckert: So will you be covering that, those other things?

Candy Easley: Covering? I'm sorry.

Wes Eckert: You've talked about the state and the BLM and all those. Are you going to cover that or not?

Candy Easley: I'm not prepared to say how much the state lost in total.

Wes Eckert: All right.

Candy Easley: If that's something you're interested in, we can get some really round numbers of millions. But really, I can only speak to the ARLF for the most part. Though it's still relative. Okay, any questions on that part there?

David Wight: A quick one and maybe you're going to get to it. The quick set of numbers you gave us, there's $71,000,000.00 into the system; you've written off 28; you've got four left. So there's 30 or $40,000,000.00 that still sits somewhere in loans and other things, I guess.

Candy Easley: Well, and I think Joe kind of touched on it because the state's been taking some of it back. Yeah.

David Wight: And we only have a partial accounting for the money there right now.

Candy Easley: Well, you have approximately a $30,000,000.00 portfolio.

David Wight: So there's $30,000,000.00 left.

Candy Easley: Yeah. Well, half – well, less than half avail – 12,000,000 is loans. The other is Mat Maid, the Delta Co-Op. We don't have much of an inventory left. Certainly, the meat plant. The meat plant and Mat Maid are our prop – our meat plant, Mat Maid, Delta Farmer's Co-Op are the three main assets of ARLF that impact the industry in different ways, but major impact.

There's a little bit of land left. Generally, when we take back something in foreclosure or settlement, we try to dispose of it quickly. During the project days, we had stuff on the books for years. It just took us so long. But presently, we do not have much inventory to dispose of. Which is partly what's been keeping us alive. We've really been living off of the sales of that inventory.

Now when I say we, the family of the Division of Agriculture, because the fund, Agriculture Revolving Loan Fund, the fund is supposed to revolve on its own and it actually does. It brings in revenue from the interest on its loans. And there's some expenses, personnel and, you know – I mean, the ARLF does a separate budget. But left alone, the fund revolves on its own and could continue. Now if you didn't – if today, you didn't – if we didn't have these other drains, we would revolve, but we have minimal funds. I mean, I couldn't do some big dairy projects. You know, they're a million a pop. So we would have minimal capability for new development of any kind.

What's been drawing us down is general fund expenditures for the

Division of Agriculture. And round numbers, $1,000,000.00 a year. $1,000,000.00 a year, every year goes out of here to pay for Plant Materials Center, you know, it comes – I mean, the Division of Ag, the director could speak if you wanted to get into that detail more directly as to the division's budget. But regardless, it's – the legislature says take it out of the ARLF.

Mac Carter: So it's like Social Security that was set up to do one thing, we spent all the money in the general fund.

Candy Easley: I think that's a very good analogy. It's not being used for the purpose.....

Mac Carter: And so you don't see the real cost to government because there's.....

Ray Nix: Just to kind of confirm for a second. There's $12,000,000.00 in loans.

Candy Easley: Uh-huh (affirmative).

Ray Nix: Nominally, that's about $600,000.00 in income.

Candy Easley: Yes.

Ray Nix: Mat Maid's about a break even proposition, although it's giving you money over the last 20 years, it's paid off its loans.

Candy Easley: No. No, no, no.

Ray Nix: No?

Candy Easley: No, no, no. Unh-unh (negative). We get nothing from them.

Ray Nix: You get nothing from them?

Candy Easley: Yeah. But he – but they have not taken any more money.

Ray Nix: They don't get anything from you.

Candy Easley: I'm very glad.

Ray Nix: The meat plant's negative.

Candy Easley: It's getting – and it continues to go.

Ray Nix: And so you give them money.

Candy Easley: Yeah, well, we – they're in our budget.

Ray Nix: Yeah. So you continue to operate on it.

Candy Easley: Yeah.

Ray Nix: And then Delta Co-Op, I don't know anything about.

Candy Easley: They're not costing us any money.

Ray Nix: So your drain right now is the state taking funds and the meat plant.

Candy Easley: Simply put, it is. The million out of the Division of Ag, I don't know, some of you may have seen a dear editor this morning, for instance, wherein a farmer wrote in, hey, the loan fund is to loan money to the farmer. How come legal fees are being taken out of the fund to pay for a suit between the farmers and the state on protecting the Alaska Grown logo. And so you could get into lots of – the fund shouldn't pay for this. The fund pays for us -- soil and water district issues. The fund pays for Plant Materials Center, $600,000.00 a year. And it's very important for agriculture, but it's not really a loan fund – that's not what the loan fund was set up for. So – yes, a million bucks every year for differing general fund expenditures of the Division of

Agriculture. Unfortunately, when we took the meat plant back instead of making it on a separate budget, they threw it into the ARLF budget.

Unidentified Speaker: Who's they?

Candy Easley: Well, I'll say the state. I mean, somebody made that call way above me. We track it. We absolutely track those costs that are associated directly with the meat plant. So we can tell you what that is. But it's thrown into – when you're working on the budget process, that gets thrown in there. It isn't broken out where – I mean, you're going to look at a bottom line for the ARLF and that's going to be thrown in there. It's not going to be differentiated that the draw-down on it is 300 grand a year.

Rex Shattuck: Who approves expenditures out of ARLF?

Candy Easley: Who approves it?

Rex Shattuck: Yeah.

Candy Easley: The legislature.

Rex Shattuck: The loans are strictly done by the.....

Candy Easley: The Board of Agriculture and Conservation is the authority for the ARLF loan. They meet once a month usually. I go in there – an applicant comes to me, I analyze it, I take it with a recommendation to the board. They say yes, no, yes, with these conditions. I close it and give them the money. They are the authority not only on originating the ARLF loans, but also over the ARLF assets. Mat Maid, the meat plant, hence their struggle with what's going on. But I guess the irony, which is maybe where you're going, is they don't have any control over the budget. They have all the responsibility to manage the ARLF with no control of the budget. And it's a – the board member that sits here could express the struggle with that. It's frustrating.

Mac Carter: Candy, can you tell us (indiscernible) purpose when the Board of Ag took over the Mt. McKinley Meat and Sausage?

Candy Easley: Ray? Three years?

Rex Shattuck: December 1st of 2003.

Candy Easley: Yeah, about three years. Yeah, it of went through – it kind of crossed over. At first, it was totally corrections. And then corrections was running it but we gave them some funds. And then at the end of it, they said, no, we're not going to run it and so it's yours. And so it is totally in the ARLF budget. And the indications are that the losses are going to get worse. And that's just the facts. And you – I mean, whether it's the increase in personal services for employees, fuel. I mean, they have increased expenses too. And the livestock numbers coming into the plant are down, down, down, down. And so ARLF in consideration of its budget has to be prepared. If there is no changes made – and that's based on that projection of '09 is based on nothing changing with the meat plant.

Speaking candidly, my other concern – if that's a known on the maybe now, the unknown that I have personal concerns about is Mat Maid. Sorry. I'm waiting for the call when Joe cannot meet payroll or can't meet new requirements for security because of 9/11, any number of things. The ARLF, the state, owns the shares of Mat Maid. And if they can't operate, rightfully so, they will come to ARLF and say we need some money. You've got to protect your asset. And the draw, dependent on how severe of a problem, when you only got this, that is nothing.

So there is a concern on the horizon of what possible financial help we would also have to give Mat Maid. So fairly quickly, there won't be any money to loan. Already, what we're doing is try to – deal with the meat plant and protect Mat Maid. And in the end, fairly quickly, not only will we not have loan funds for dairy producers, we're not going to have it for the vegetable producer, the hay producer, strawberry, catnip, everything else. And there – it isn't just new development. Half the loans I make are operating loans for already long-established farms. And though they might be able to go to their credit union, to their commercial bank to get the money, it's going to be at a much, much higher cost. They are not going to get five percent with no fees.

So it's – that's – I was supposed to talk about what the loan fund was. But in the context of what you're talking about, you need to know we're just about gone. And so it's bigger than just what to do with the meat plant and Mat Maid.

Rex Shattuck: Probably a question addressed to Larry, I would assume, but the Division of Ag budget, what portion of that comes out of ARLF?

Director DeVilbiss: A percentage, well, a million bucks comes out of ARLF.

Rex Shattuck: What percentage of the overall Division of Ag budget is that?

Director DeVilbiss: I just asked for those figures a couple days ago to be accurate. Because it's not just state money; there's federal monies. We've got positions in there doing market inspections and things like that that are paid for by the feds. I'm going to guess that overall budget is 4,000,000.

Rex Shattuck: Historically, has always been the case that ARLF has paid a quarter of the Division of Ag's budget?

Director DeVilbiss: It was worse until last year. To your credit last year, you picked up more general fund money. And we'd like to see that trend continue.

Candy Easley: Questions on anything I've said so far? I kind of – I've moved off my outline. Now I'm confused.

Paul Huppert: I have one question I wanted to ask you.

Candy Easley: Okay.

Paul Huppert: In that 28,000,000 that you say was lost, was – there's none of that is lands that.....

Candy Easley: No, no. Only the loans. Only the loans. Yeah, there was way more millions invested by the state in the projects. Yeah. Also.

Paul Huppert: Now when you say that it – was that – when you say in the project, now that land, you didn't put that clearing loans into the lands, or where they within the – which was the biggest cost.

Candy Easley: I think that – correct me, Cathy or Bonnie. I believe that 28,000,000 does it include the clearing loan charge-offs?

Unidentified Speaker: Yeah. Uh-huh (affirmative).

Candy Easley: Yeah. Which was originally general fund money. But when the Ag Action Council disbursed, those loans were given to the ARLF to service for free. But we booked those separately. But in that charge-off, that includes the clearing loans.

Paul Huppert: So the 28 includes clearing.

Candy Easley: That's what I'm hearing from – yes. Yes. I still service a few of those.

Don Lintelman: Have to re-do it.

Paul Huppert: Pardon?

Don Lintelman: And now they have to re-do it?

Candy Easley: Re-clear?

Don Lintelman: Oh, yeah.

Candy Easley: It will cost more to.....

Don Lintelman: Yeah, I know.

Candy Easley: Yeah, yeah.

Ernie Hall: How many years does this $1,000,000.00 go back, $1,000,000.00 a year?

Candy Easley: Oh, the draw?

Ernie Hall: The draw.

Candy Easley: 19.....

Unidentified Speaker: 1989.

Candy Easley: Yeah.

Ernie Hall: 1989.

Candy Easley: It's – you know.....

Unidentified Speaker: It wasn't $1,000,000.00 back in 1989.

Candy Easley: No, no. And actually I think what I did is in that packet I gave you ARLF's fiscal summary. And on the very last page of it you'll see -- it's this one here. And on the very last page of it you'll see how that money has drawn out each year. On the comment column it will show you GF. It's actually – starts on the second page. And it will show here in the column, GF expenditures paid by ARLF. And you know, originally, and again, because I've been there so long, when it first started out, it was never meant to be funding in the division. It just started out and once they started, it makes it too easy. I asked a person and who shall remain unnamed here one time in my frustration why they kept taking this money out of the ARLF. And his response to me was because it was so easy.

Rex Shattuck: Is that money coming out as a proposal from the Division of Ag or do you know whether you – we can say that the legislature actually moved that directly themselves? Is that a proposal in the Division of Ag's budget?

Candy Easley: This is a part.....

Rex Shattuck: Are they proposing that that come out of it?

Candy Easley: Yeah. This is a part where I have to be very careful.

Rex Shattuck: That's okay. I can ask (indiscernible) budget.

Candy Easley: But let me tell you this – but let me tell you this, the budget process, the division prepares a draft budget. The Board of Agriculture and Conservation is required to review only the ARLF portion, though they know that – I mean, they're told, you know, here's what we're trying to do as a whole, but here's your budget. Before it goes to DNR, the Board of Ag is supposed to review it and make their comments. Yes, we think it's great; no, we don't; here's a suggestion like please stop taking general fund money out of there.

I believe last year the Board of Ag did a resolution that said please – we're dying. Please, you cannot keep taking this general fund money. Now, once it leaves there, I could not speak for the department or the governor's office or the legislature.

Rex Shattuck: Yeah. Well, there's probably opportunity in the budget subcommittees to address that concern. I don't know if in future years it's worth pointing out to – well, you guys can't do it without going past DNR so I got a note.

Ernie Hall: One more quick thing. You stated that you get no earned interest on this money until you make the loan.

Candy Easley: Correct, correct.

Ernie Hall: Who gets the interest?

Candy Easley: The state does.

Ernie Hall: The state general fund.

Candy Easley: It's in our little line.....

Ernie Hall: Except you don't have (indiscernible).

Candy Easley: .....that this is for ARLF, but it's – the state gets interest. We do not. So we're really better on loaning the money out. And there's been two ways – these boards – I've served many of them. They – by the way, the members on this board are appointed by the governor's office. And the majority of which are supposed to be made up of ag related producers, you know, of some sort so they have that expertise.

But sometimes the agendas change. All of them – all of them have been bothered by funds being drawn for non-loan purposes essentially. All of them have been bothered by that. They – and again, they make the loan decisions and they make the inventory decisions, but they have no control over that budget.

Mac Carter: Well, Candy, it can't really be a revolving loan fund if we're only getting back the amount of money we lend out because then you're not getting any recoup to pay for the expenses to set up the loans, to service the loans.

Candy Easley: Yeah, in round numbers, you know, right now.....

Mac Carter: Is there a figure you've got at how much interest has gone back through the general fund that ARLF did not get turned back in because it's a revolving fund?

Candy Easley: Help. No, no. The money the ARLF makes goes back in the.....

Mac Carter: Yes. But not the interest.

Candy Easley: No. The interest on the loans. No, no. We loan it out and for five percent. That money comes into the ARLF.

Mac Carter: Okay, well, I was confused.

Candy Easley: We sell property that we have foreclosed on. That money goes into the ARLF. So what we're earning and selling goes back in. It's just I can't pedal fast enough to keep up with what's being drawn out. Round numbers, ARLF makes around 600 grand a year in interest revenue. And I already mentioned we're pretty much done selling anything, which is not really what we're meant to do. But – and our costs are sort of – our costs are $300,000.00. Now if none of these other things were drawing on us, we could revolve, but we wouldn't have much.

Paul Huppert: You know, in all fairness though in the past there was other monies went out of there besides write-offs. I mean, there's 1,200,000 for firefighting. In 1988, there was 6,000,000-something taken out for.....

Candy Easley: No, that's – yeah, that's true.

Paul Huppert: Yeah, see, so those all decreased that fund also. There's other than the write-offs.

Candy Easley: Yeah, we're easy pickings. That's just it.

Paul Huppert: Now when it gets up so high, it's – I know (indiscernible) the legislature, they – anything in lands they hit the fund for. And some of it I know it wasn't acquainted with agriculture either.

Candy Easley: I think the director has a comment.

Director DeVilbiss: Well, just another illustration. Just two or three years ago, we had a legislature wanted to put money in a road and they just took it out of ARLF. It wasn't on the budget or anything.

Paul Huppert: So the decrease of that fund – I think you have to add up everything. And I almost – a big percentage of it was other than agriculture write-offs or even operating the division. Of course, I firmly believe that the division's budget should strictly come out of the general fund.

David Wight: Trying and putting an eyeball on it, it looks like $20,000,000.00 that have been pulled out. Twelve just to run agriculture and another eight or so.....

Candy Easley: Yeah, that is about right.

David Wight: (Indiscernible) went to the other three major items.

Candy Easley: Yeah. And sometimes – you know, even all the farm or state farm organization, whether it's the Grange or Farmer's Union or the State Farm Bureau, all of them have been very supportive of the ARLF in passing resolutions and trying to make all the political contacts that they can make to not only stop the draw from ARLF expenditures, but to re-fund it. And I think Rob might be able to confirm – I'm not sure which organization; you're in so many. At one point did a resolution to just do that; to return exactly what they took out. Yeah?

Unidentified Speaker: The Farm Bureau?

Candy Easley: Yeah, I don't know – what – I think at that time it was 10,000,000. They said, hey, put back the 10 you took. So no one in our industry agrees that this should be happening and have tried to get it re-funded, to get it stopped and get it re-funded. But it's – I believe a critical factor in what you're meeting for to know that if the fund isn't here, whatever solutions you suggest, there's not going to be anyone to finance it. So that's the critical factor.

Paul Huppert: I'll tell you, I was probably one of the early users of the revolving loan fund. I'm not any longer, but years ago and up to not too long ago, if the competition for money in the State of Alaska, if it was agriculture, a banker wouldn't talk to you. I mean, they didn't care how good you thought it was or anything else. They just didn't want to get – in fact, they used to have a regulation, I know by some of the lenders in the Matanuska Valley. And I can remember one of the local banks saying they never loan money on the other side of the Seward Meridian. And so if you were over there farming, you didn't get money except the revolving loan fund. And it's been – what agriculture has been today has been due to the fund being able to fund (indiscernible).

Candy Easley: Okay, any questions? Any more questions on where we're at? Okay. This pie chart. People had a lot of interest in this (indiscernible). What I did was had Bonnie, she does such beautiful visuals for me, take the portfolio – the ARLF only portfolio of just the loans as of the end of September. And I went through the resume and I categorized the loans. And I – in order to be consistent, I used the same categories as Dr. Carol Lewis used on the report that you all got to – so we weren't doing apples and oranges.

The only thing I did change on it is I did in the same color of agronomy I did break out potatoes. They put potatoes with forages and grain. And because of the issue that you're meeting about, I broke out dairy and livestock, but they had it as one category livestock. So the first thing to note, and I'll just repeat it, is this is only the ARLF loan portfolio. It doesn't include federal or it certainly doesn't include producers that don't have debt. And there are some. So – but ARLF is the major ag lender, so it's still relative information.

In the pie chart, the diary portion shows less than 10 percent. At the end of September it showed 8 percent. The second thing that's important to note, I can say that the portfolio is less than – is 8 percent only dairy loan. But they do impact the other loans. Specifically, the agronomy, which is 60 percent of portfolio, hay and grain. So it's important to note though it looks small on here in the portfolio it really does impact some of the other parts of the portfolio.

I gave you just a guess as best as I – just used round numbers on the breakdown of the dairy debt. There's ARLF, there's FSA. ARRC had one small loan. Well, actually, that's not true; they one – two borrowers but they're 115,000. But I wanted to try and show you – and by the way Chad is here and I think earlier he mentioned approximately 2,000,000. But I used 1,000,000 because I didn't know. I took it from what I knew last year less what they wrote down. But I still think it's – you know, for your purposes the debt of – dairy debt in the state is 2,000,000 to 3,000,000 I guess. So that's a big consideration considering what you're talking about.

Now there are eight grade A milk producers in the state. Two of them, Craig Trytten and his son – Digger has his own grade A, correct? So two of them, they're separate permits, but they're operating together. But it's a true statement to say there are eight grade A milk producers in the state. Our understanding is one at Point MacKenzie, at least, unless it's changed in the last week, intends to stop production by January. But that particular party has no debt. But it would affect Mat Maid's – the percentage of local milk coming into Mat Maid so it's relevant.

I think that it is important to point out – and then – I've watched this for almost 20 years and I've seen it go up and down. I've been out to Point MacKenzie when it was completely a ghost town and other times when it was school buses going out there. So I've seen the up and down. But I think it's important because of what I've seen you discussing trying to figure out what's the problem, what is the crux of the problem. I don't think there's an easy answer, but I think there's a couple of things that are important to point out.

Based on my experience, debt is not the sole problem. And I say that based on a couple of things. We have a dairy producer – is it 1990 we decided, that charge off?

Unidentified Speaker: '92.

Candy Easley: '92. No names. In 1992, we had a dairy, a Point MacKenzie dairy producer and we charged off $1,000,000.00. I mean, ARLF hasn't been doing any charge offs for a long time, but we've been there too. You know, we – I've been there and sometimes it's the only alternative. So in 1992 on this dairy producer, we charged off $1,000,000.00. That producer is still producing but struggling. So if we charged off 1,000,000 bucks back in '92 and they still can't make it, is the answer to just charge off another $1,000,000.00? I don't think so. So it's not just dairy debt that is causing – that the heavy debt is not what solely causing failures.

Another example is some of the Colony farmers passed on their farms to the next generation free and clear of debt and there's two of them. I watched this. One is producing now. Does a fantastic job. Doesn't borrow money. Does a fantastic job. He inherited the farm from his family. The other one, long, long out of business. And he had the farm free and clear, but because of poor dairy and financial management went through charge off after charge off after charge off until there was just no – and lived off the equity really, kept borrowing on the equity of the increasing value of the land.

So I use those examples to point out because I see lots and lots of discussion about what debt load, what debt load, you know, how much money would Mat Maid have to pay to make it work. Well, it's not all about how much and how much debt needs to be gone to make it work. And I just think it's very, very important to point that out.

Dr. – one more thing and I'll – Dr. Gottfried (ph), I thought did a fantastic job on his report. He came and spoke to the Board of Ag and he was pretty candid. And one of the things and I thought was so true, he pointed out one of my examples that said, I don't know, this guy just does a great job. But he says there – you could take some farm managers and put them anywhere, whether it's Wisconsin, Florida or Alaska and they make it work. And I believe that's true in lots of forms of businesses. Looking for efficiencies, using their money properly and I mean, it's just – it's running a business. It's running a business.

I have the two – well and here's another good example. There's two grade A dairies operating in the north. And of course, Mr. Lintelman's dairies and operates the processing plant up there. The other gentleman that operates up there – and I think people – he's been there so long, people have forgotten. ARLF owns that farm. ARLF owns that dairy farm. We took it back many, many years ago and he was a hand that worked there and we could not give this farm away. This was many years ago. And because we were really trying to promote dairy, he said I'll give it a shot, but I don't have any money. And we said use it. Here's the cows, here's the equipment and here's the farm. Go milk, go do your thing. And what we did is took a paper back on the equipment, and the cows, which he now owns free and clear. And this guy is like clockwork. His production doesn't vary hardly at all. He'll go from 58 cows maybe to 62. He's so efficient, he's so consistent. He has an option to buy the farm, by the way.

But there's an example of someone that started out with nothing. We essentially said we'll give you the paper and see if you can do it and by golly, he's done it and he doesn't owe us any money. So there – we tend, because of our problems, I guess discuss a lot about the failures. And I think it's very important that you know that there are successes. Mr. Lintelman's farm at one time burned down. And he rebuilt. And he doesn't – he's paid his loans to ARLF, so there are some successes. I had to get that in.

Rex Shattuck: You were – you said that it is not a matter of debt load only.

Candy Easley: Uh-huh (affirmative).

Rex Shattuck: And I would agree looking at the picture, it definitely doesn't seem to be just that. But there's some inconsistencies with the end result. As you just pointed out, when we look at perhaps our managing the risk and who we decide to give loans to. So someplace in there we have to address that apparently too. Because you're saying in some cases we've just given things and they've been successful, as you just pointed out. And in other cases, we've had, you know, evaluations, decided to give a loan to a person and they've failed significantly. So where in the process of identifying who we're going to loan to are there issues that need to be fixed? And I'm not sure that that's something here, but obviously that comes across to me.

Candy Easley: And I think that's a good question. With regard to the example I just gave you where I said we just gave him the farm and said we'll see if it can work and we held the paper for the equip – that was 20 years ago, Ray? Almost. I don't want to say a name. The farm we own up north.

Unidentified Speaker: With the lease?

Candy Easley: I think it's been nearly 20 years.

Unidentified Speaker: It's been almost 20 years.

Candy Easley: Yeah. So that was a time when we were taking back farms left and right. We had four or five pages of inventory. And the director in the administration at that time was very, very much on the agenda that we have to do whatever possible to get this dairy up on its feet. If we take it back, we're not slaughtering cows. We've somehow – so 20 years ago that was the agenda.

Rex Shattuck: Well, I asked that question because it seems an awful lot of the discussion we have is centered around can the infrastructure and can we have a farming industry in the State of Alaska. And you know, barring those areas that we – the projects, as you called it – we put a lot of money out and not all being successful. Boy, it seems like we've done a poor job of judging that. I mean, is that a major piece of this is how do you…..

Candy Easley: Yeah. Well, I'm a little prejudice because I've been underwriting those loans for 18 years. And I didn't (indiscernible). I didn't throw this out.

Rex Shattuck: I know. I appreciate that. I appreciate that. I don't…..

Candy Easley: I think that would be true. A banker, you're going to try to use good credit underwriting whether it's for dairy or any business. And so I heard you talking earlier about how you would judge a loan based on milk pricing. Now let me tell you how I do it. It's fairly easy with the existing loans. Joe pays this much. If you do a really, really good job, you even get bonuses.

So I can say, well, I'm going to assume you're going to do a good job. And I make them give me cash flows and such and go through credit and all sorts of things. But for me, I say well, you're – you are milking or you propose to milk this many cows. If I take what Joe will pay, plus any federal subsidies, or I would consider the price support from the state only as a bonus. I would never include that, but that's not a – going to continue. Maybe it will, but we don't know. And I'm going to take a given. Now dairy producers Outside don't have that advantage. Their price a hundred weight can go – I've seen it as low as 11. Has it been lower?

Chad Padgett: Ten. Ten.

Candy Easley: And as high as what?

Chad Padgett: Eighteen.

Unidentified Speaker: Seventeen or 18.

Chad Padgett: Eighteen.

Candy Easley: So, boy, the banker Outside's got to decide whether to loan this dairy person based on him only getting 11 or 18. That's huge. I have it fairly easy in that on the existing ones, I know the maximum that they can get and I'm pretty generous with that.

With regard to the debt load, I've used 5,000. And that's way, way generous. But Hoard's Dairy, which is a dairy publication, I look in there occasionally and see what they say. But I've used the 5,000, though I don't think that's high enough here. And I – and even with all that, I can say well, if you don't lose any of your crop, if they don't increase rate, if they don't increase the price of feed, if they don't – if something doesn't jump up huge, it looks like you could do it. And some of them do. And some of them do. Some of them don't because of, in my opinion, lack of business and farm management. And that's true of any kind of farm. I find that true in potatoes, in vegetables, in grain. That's true of any business. Those that are very efficient at it, make it. Maybe they divert – get diverse in things or they stop doing it. They stop doing it.

I just want to make the point it isn't just the debt. If you think you're going to come in and charge off all the dairy debt and this is going to make it work, I'm sorry, you're wrong. I have file drawers full of failed dairy loans. Million bucks a pop. Million bucks a pop. That's what it takes.

Chad Padgett: Candy, I just want to clarify something on the debt loads. I want to make sure that everybody's aware that that's not what I was trying to say this morning that we just charge off debt loads. That's not the point. There's – like Candy says – I'm agreeing with her on this – there's many other factors you got to look at, everything from grain production, to infrastructure, to land price sales. There's a number of factors that have to play in. And as long as we're doing our jobs in the lending business like we should, you're absolutely right, there isn't anything that shouldn't – you know, our folks down south do take all these prices into account.

The point is, that wasn't done here in FSA. So that's what we're dealing with. So that's the point I was trying to make this morning. We're not – we're dealing on a different playing field because of that, at least at the federal level. So.....

Candy Easley: You mean because of the new pricing?

Chad Padgett: Not because of new pricing, no. No. What I'm saying is because of the way the loans were made to begin with – and this was '96, the majority of them. Because of that, that's what we're faced with today. But I'm not advocating that we charge all these accounts off. That's not – I just want to make sure that's clear.

Rex Shattuck: I didn't take that.

Candy Easley: No.

Rex Shattuck: I don't know about any – you know, that's a nice starting point though and working out from there in my mind as an element.

Chad Padgett: And the other thing on your chart with the agronomy, how much of that is taking into account the CRP payments? I don't know how many – I don't know if we even cross reference that or not and.....

Candy Easley: Well, what do you mean? The CRP stock?

Chad Padgett: Yeah.

Candy Easley: What impact do they have?

Chad Padgett: What impact would that have?

Candy Easley: On.....

Chad Padgett: On your loans.

Candy Easley: .....loans made. Yeah. It would have an impact. It would unfortunately have more impact than if there was no dairy industry.

Chad Padgett: Right.

Candy Easley: Yeah, yeah.

Chad Padgett: And that's something else. That's why CRP comes up a lot because that's something we're grappling with right now. So again this whole feed, forage, dairy, debt loads, the whole thing has to come together.

Candy Easley: Yeah, yeah. There's a lot of them that have CRP that their loan payments are set up in October, which is when – and some of them I take even by assignment. So those federal programs, if that CRP payment stops or some are being reduced, yeah, it could impact their ability to pay on the loans. Though I have to say there wouldn't be a huge downfall. You know, it would probably prompt some collections, some modifications of loans, some, you know, I mean, it would impact it. But I don't think we'd be writing off millions of dollars.

Rex Shattuck: We had discussions on how much of a draw there is out of ARLF. And how much your operating costs are and all. I don't know, is it a fair question to ask what the success rate is on the loans.

Candy Easley: Excellent.

Rex Shattuck: Well, I mean, can you show that?

Candy Easley: Actually, I can.

Rex Shattuck: Okay. Obviously, you know, you're comfortable with the process.

Candy Easley: I'm pretty tough. Rhonda and others will – I'm pretty tough. I am a producer's best friend when I'm handing the money out. When I'm trying to collect it back, I'm their worst enemy. There has been for a number of years less than 3 percent in default. I haven't even had a default in a couple of months. So....

Rex Shattuck: So the number that you – I think you said something like 85 percent when you started, is that correct?

Candy Easley: Yeah.

Rex Shattuck: And that was what year?

Candy Easley: It was mostly these project loans. Yeah.

Rex Shattuck: Okay. So that was in what year for you when you started?

Candy Easley: Oh, '88. '88. It took a lot of years though. More than five. That's all we did. We were making very – we were making some loans.

Rex Shattuck: So in more recent history then you're saying basically.....

Candy Easley: In the last 10 years.....

Rex Shattuck: ......at present, but the last 10 years have been around 3 percent.

Candy Easley: Oh, at least. Oh, less than 3.

Rex Shattuck: Less than 3.

Candy Easley: And ARLF was subjected to a legislative budget and audit where it made auditors, state auditors – and I'm bragging a little bit.

Rex Shattuck: Was that 1994 or was it.....

Candy Easley: Do you remember when that audit was?

Unidentified Speaker: 2001 or 2.

Unidentified Speaker: Which one?

Candy Easley: Now, this was on the ARLF. There was specific audit on ARLF and I can bring you copies next time or.....

Unidentified Speaker: It's on the Web site in the legislative affairs under audits.

Candy Easley: They don't give compliments too often and they actually did compliment the ARLF in the outstanding loan underwriting job. The way this works is I have no authority. I may have influences, but I don't have any authority on these loans. I look at them strictly credit underwriting. I do up a report, give it to the Board of Ag and Conservation. I do make a recommendation. The board generally – and it's pointed out in the audit – generally goes along with my recommendations. But I have to tell you the ones they haven't, have been dairies. Sorry. And it's because of political influence. That's just the truth of it.

And during that audit, there was some of that going on where I – and at that time we had two loan officers. Both loan officers recommended decline; the board did it anyway. But that, you know – I do my job; they do theirs.

Ken Sherwood: Well, I was curious. Maybe I didn't hear Chad correctly. But there's two loans – I mean basically the state and the fed. But Chad said under the current environment, he wouldn't make a loan for a dairy farm and you're intimating you would make a loan under the right set of circumstances.

Candy Easley: I would never say I wouldn't do a loan. I would never say that. I will talk to anyone, but show me how you're going to do it. If a new producer came to me now – I underwrite very conservatively – I would probably use 11 bucks a hundred weight. I would say if the worst – here's the average, 11 to 18. Now, is he going to qualify? That's doubtful. That is doubtful. But I would not recommend a loan based on the high end. I'd probably call Mat Maid and say give me history, three years. I might average it out, but I would never base it on the high ever. Yeah.

Ken Sherwood: But in your opinion, there's a set of circumstances where you might loan money for a dairy farm.

Candy Easley: Sure. If they qualify. If they qualified and I've gone through.....

Ken Sherwood: But I mean would they qualify?

Candy Easley: Probably not. But, you know, I mean, there's subsidies, there's, you know, maybe they're only – maybe they only want to borrow $10,000.00. I'd say, hey, that's all right. And by the way, first position – first position ARLF – ARLF typically and because I spent the first 10 years being in second position, first position. ARLF is in first position. If it goes bad and keeping in mind you're doing a 75 percent loan, we will recover. And we don't want the farm. We don't want to foreclose, but we're going to recover. I can't afford to lose any more money.

The other thing is, dairy loans, we make dairy loans, it's all by milk check assignment. As long as they're milking, we're going to get paid first. So any of the dairy loans we make, payments are secured through either the Lintelman processing plant or Mat Maid and they don't get that money. They get what's left after the check to ARLF. Now if they're not milking, and I've had that happen, we're probably in trouble.

Rex Shattuck: Question on the – it just kind of caught my attention and I – we've understood that you can't bring additional dairy cattle – you can't bring cattle into the state.

Candy Easley: Well.....

Unidentified Speaker: Fly them in.

Candy Easley: Yeah, you could. It would be a huge expense.

Rex Shattuck: Without significant expense.

Candy Easley: Yeah, huge.

Rex Shattuck: So just out of interest and I'm not promoting the idea, but it's a question in my mind, if we kind of – if we can't bring any additional cattle into the market, does that not increase the value of those cattle that are here? So why do we go at 75 percent of the slaughter?

Candy Easley: You could take – I'm doing a 30 year loan, what's that cow worth six months from now, a year from now, or 10 years from now, though generally a 30 year loan is secured by dirt. Livestock or equipment loan are usually a short-term loan. You know, we kind of the last three years have been going through seeing dairies liquidating and the division has made every effort to help those people because we want to keep the cows milking rather than go to the slaughter plant. And they've gotten sold, but boy, they – you know, a dairy producer doesn't have a whole lot of cash sitting around. And so they're not – if you only have three people that want to buy, they're not getting big money for those cows. Even though – and in fact, I'm sorry, what's happening is the quality of the cows have gone down. That's what's happened.

One, the dairyman milks it longer than he should because he doesn't have a replacement. So instead of milking it for three, four, five years, maybe it's six or seven. And that cow is not going to put out to its most efficiency. So they're keeping cows longer and not getting as good a production. The second thing is the gene pool is small. These – where they're bringing those cows out of Washington, Oregon, Canada, they come from farms that do nothing but breed to sell the springer heifers, bred heifers. That's what those farms do; that's all they do. And they really work on the genetics.

So when you stop that coming in, you have a small number of cows and that gene pool is not being improved on. So that's an impact factor on the closure of the border.

Rex Shattuck: Well, that answers kind of in part – my next question's going to be well, how much of an element or how much of a piece of this picture is the fact that – because I've heard the comments once or twice that you can't bring additional cattle in. So I was kind of – it's difficult to bring some additional milking, you know, cattle in. So my next question is going to be, well, is it really a major issue that the border is as closed as – you know, if we're saying that we're not able to sell the ones that could become available in the state.

Candy Easley: You – yeah. It is an impact. You can AI cows. You can bring in the (indiscernible). But I have to tell – it isn't an issue, but I have to tell you the same dairies that are struggling now were struggling before the border closed. So it's not – it's a combination of things impacting the struggle in the dairy industry. But it was struggling before the border closure. It's just made it even more of a struggle for them. I'm running out of breath. Is that enough?

Rhonda Boyles: I think so. Any more questions for Candy? Thank you, Candy. Thank you. And again, Candy will be around and okay, I'm going to make a dictatorial decision here. Because we have two producers – and Larry, help me. Ray and (indiscernible) are gone – all producers, dairy producers were invited?

Director DeVilbiss: Absolutely. And we have – we had one response to the questions. And I think that's in your handout or we'll hand them out.

Rhonda Boyles: Okay. And we have two here. And I don't want to keep them here in Anchorage while we have lunch. So I'd like to just continue going. I think they're a very, very critical element of your ability to somewhat have more information to digest and think about. So I would like to – maybe – do you want to take a three to five minute to stretch, or are you okay? You're okay. All right. Oh. (Indiscernible) wants to stretch. Go ahead. I'll keep you right on task. You got about three minutes if you want to get more coffee. And then when we come back, Wayne and Craig. (Indiscernible).

(Pause)

Rhonda Boyles: This is literally the wicked witch of the north (indiscernible). Okay. So we're going to have some ground rules. Now this is an emotional thing and understanding why. Craig and Wayne have put it all on the line. Some of us in this room have also done that in other areas; some have won; some have lost. And it's certainly when you're talking about your hard earned dollars and the sweat of your brow every day, it's very emotional. And I respect that. I'm not going to stand here and say that Wayne and Craig and producers work harder than any one of us in the room with the exception of David, who's probably retired. But – I'm teasing. But we work different. They work different. We all work hard. We work very physically and you have a lot into your businesses. So to control some of the emotions so we don't all have PMS days here, ground rules. No cussing, Wayne.

Wayne Brost: Okay, I can try.

Rhonda Boyles: No four letter words today. Or I'm going to stand whoever does it in the corner. No kicking, no screaming, no throwing furniture. Okay. Complete respect because we're all professionals. Maybe a little – in a different way, but we're certainly all professionals. And I thank you for coming and sharing your vision of the dairy industry with us. And you have – I'm going to hold up – it is quarter to 12:00. And I would like to break for lunch no later than quarter of 1:00. So with your presentation, questions and answers, let's try to keep it to 30 minutes.

Wayne and Craig are here as from the producers. And in front of you, you have the Havemeister's response to the questions and you also have a copy of the questions that was asked to each producer. Thank you.

Director DeVilbiss: Rhonda?

Rhonda Boyles: Uh-huh (affirmative).

Director DeVilbiss: I see (indiscernible) everywhere. We really intended this just for the board, some of this.....

Rhonda Boyles: You mean Havemeisters?

Director DeVilbiss: Yeah.

Rhonda Boyles: And everybody has it because it's a public – no. And because it is public, Larry, it is public, pretty much.

Direct DeVilbiss: Well, we did try to tell them that we'd be careful with it so.....

Rhonda Boyles: Okay. So be discreet with whatever you're taking in or out of this room. Thank you. Go for it, buddy.

Wayne Brost: Okay. Thank you. Thanks, everybody. I know everybody's putting a lot of time in here and I appreciate all the effort that's being given to the industry. Especially, Rhonda, you've done a real good job. Unfortunately, this wasn't done five years ago. That's probably my biggest regret as a producer that we didn't access that solution there, the 25 mil.

Anyway, I'm going to go down this list that you sent me, if I could real briefly, and then I'd made some notes that I'd like to address some specific issues that I have. And then I guess maybe if somebody has some questions, would that be okay?

Rhonda Boyles: Sounds good. Thank you.

Wayne Brost: Okay. First of all, how many acres is your farm. I have purchased part – all of one section and part of two others, so I have 960 acres. That includes some wetlands at Point MacKenzie. I lease off the farm about 450 acres also. I have about 240 cattle. I think this summer or most of the summer, I was the largest milk fluid producer in the state now that Kyle's gone and some of the others have fluctuated up and down. I also am probably the second or third largest acreage-wise of Timothy hay production in the state. I'm a pretty aggressive farmer. That's my forte is crop production, not potatoes, but forages. We'll milking about 85 cows right now. And I think Joe and Linda are here. They can attest that in the 11 years, 10 years that my wife and I have been producing milk at Point MacKenzie, we have never had a bad tank of milk ever. We are almost exclusively in the $1.00 incentive. In other words, our – I'll put my accounts up against anyone's. We have good, high quality milk. Joe can attest. He signs every – every two weeks he signs my check and my paperwork.

We have done both artificial breeding and natural breeding. And on the natural breeding side we have used sires from AI herds, proven – somewhat – some of them like Havemeister's especially is what I'm using right now. And like I said, we've done artificially also. We have about 70 replacement calves. We have an ample supply of replacement calves. We have had a very low death loss in the last couple years so our female numbers are coming up. We breed for milk replacement stock, not for day old crossbred customers.

We employ two to five people and it's not all on the dairy. But I would attribute two just to the dairy end of it. The others is clearing land, which we are still in the process of and in hay production in the summertime. Our veterinarian bill, just the vet bill on meds and vet last year was $5,452.00. That's just palpitation – preg testing and things like that with our vet. We sell our day old calves if we can and bull calves. And a lot of them, by the way, go to the Point MacKenzie Correctional Facility that I live right next door to. They are trying to increase their herd. The calves are worth about $70.00 and the longer I keep them, they go up in value. But right out of the – real little ones go for about $70.00.

We feed mainly Timothy forages to the cattle. We rotate graze intensively in the summertime. We're still grazing at present time. And by the way, the Timothy and grass based forages give a higher Omega 3 grass – or beef and milk product, which is a very good sales ploy on the health end of it. It's like a – it's a good product. I also raise some oats and rye grass. I put them in a tube line with new technology and make silage out of them and I use them in the TNR, a vertical type mixer, which basically I just dump a round bale that's fermented into silage into a big machine, then I add my grains and my proteins to make a balanced ration, which I've worked in the past with the university scientist specialist Milan Shipka. Well, I've worked with him since he's been here actually to formulate rations.

I produce almost all the forages myself. I do not grow any grain for myself other than a silage type grain and that would be an oatlege (ph). The reason is the barley does not tolerate the acidic ground at Point MacKenzie so it is not economically feasible to grow barley there. I buy my barley. Obviously, I buy quite a bit of feed from Ken Sherwood and Alaska Mill & Feed and the soybean and all the supplements I get from him and of course, I get my fertilizer through him and – but I buy most of my barley through the Delta project which Robinsons and in the past Wrigleys and (indiscernible) and some other people up there.

Okay. This last one here is interesting. What monetary value would your culls have if Mt. McKinley Meat & Sausage was closed. Folks, I quite frankly wouldn't – there would be no value. I have – once in a while I'll have some Asians – well, let me ask you a question how many people in this panel here have butch – come out to Point MacKenzie and butchered a cull cow in the last couple years? I don't see any hands going up. People don't butcher like they used to. You know, I come from a rural area, agriculture, we butcher our own cattle. That's not – the only people that I get in – or most of the people I get interest from are Asians. In fact, just on Saturday we butchered a bull calf. But there is – it would be very, very difficult for me to market, especially cull cattle, very little value. I'll keep going here.

What is your break even price for your milk. I believe with my debt load and I would have to disagree with Candy. I think that debt load is a very, very critical factor. You can be the best damn manager in the world, if your debt load is too high and your cash flow position doesn't cut it, it doesn't matter. I have to have about 23 bucks a hundred weight and I think there are other producers that are not as diverse. I also sell hay, obviously with my acreage base there I do sell some hay to the horse market. The preponderance of my income is from cattle and milk. But I need 23 bucks a hundred weight. And that's at – that would be status quo with the cost of grain, with the cost of my insurance, which you know has all gone up. You know, I don't know any of my input costs that have gone down.

Now, I would like to address some of these comments that I hear about well, your milk never goes down in price. And so that's a big – that's great. But let's – I don't want to hear any more of that because the guys that go like this, that's fine, but it's the same as this in the end. In other words, you can go up and down in Washington State and when you go up, and you're making a ton of money; when you go down, you're losing a ton of money. In the middle, you're doing like we're doing. You're working your butt off for a little bit of money.

And another thing about this Northwest Milk Order going up and down, I just had a guy here from Washington that had a really good solid $15.50 contract with Tillamook Cheese. Everybody's heard of Tillamook Cheese. It's a huge company. Employs and buys a huge amount of milk on the West Coast so that's not the only market, the one you're comparing our price to. There are other markets out there. There's organic markets, which are higher than what these contractors are getting to Tillamook Cheese also.

This last one's a real good one here. Did everybody see that? Do you have a successful plan for your farm. How interesting is this? I, Wayne Brost, have come to Point MacKenzie, invested with retained earnings and with what I had, and borrowed money, about 1,000,000 bucks. Now I'm expected to make payments every two weeks or monthly to the state. It seems like a double standard here. Mat Maid hasn't been paying since they been – since Joe took over and it reorganized. Delta Co-Op can't – how much Delta Co-Op pay a year? $1.00?

Candy Easley: $1.00 for a lease.

Wayne Brost: Now that's a little less than what I pay, I can guaranty you that. I think paid $50,000.00 interest a year. Now what I'm saying is, I'd be a lot better manager if I didn't have to pay the state a whole bunch of money and the feds a whole bunch of money. I could improve my capital expend – I could have new tractors, I could have better cows, I could have a lot of things. In fact, I could take less money for my milk. But I can't have higher input costs, have to pay the state and the feds, and clear land and have a – and I have a higher debt load than Paul does up there that's leased your farm for 10 years. And I hope you give him a good deal on it because he's worked his butt off up there for that long. And I know land down here is about two to three times higher in the Anchorage Bowl. So it's not – you can't compare – that's like apples and oranges. You can't compare one region to another because the debt loads are going to be different because your land – your increase – incurred costs in different things. Cattle may cost less up there.

And a good example is the barley costs less up there because they're up there right by the barley. Their freight's 40 bucks a ton less right there. A lot of different things. That's an interesting question. A successful plan for your farm.

Unidentified Speaker: Succession plan.

Wayne Brost: Pardon.

Unidentified Speaker: Succession plan.

Wayne Brost: Oh, a succession plan. Well, you know, what I'd like to do is I'd like you guys to build that bridge and maybe I can successfully sell that farm. And I haven't seen – I've heard a lot of talk about well, you guys, you're going to get a lot of money out of your land. That's where your retirement or your deferred income is. I haven't seen anybody do it. All I've seen is guys go broke out there. I don't want to do that. I've got too much in it. I've got all my marbles in this deal here. I've got all my eggs in this basket. My wife and I have worked for nearly 40 years. We've been married nearly that long. And we've put everything in out there and we look around. And like I said, I'm really upset at myself as a producer. I'm upset at the division and I'm upset at Mat Maid that none of us had the ability to get together – and Chad worked. He worked – I have to say that he's worked awful hard in a lot of different ways to try to get us together, you know, same page, get us in with Stevens and solve this thing with – I can't believe – if somebody handed me 25,000,000 out at my farm, I think I could write up a grant for them and I could make it work.

But we didn't. So I hope somehow that we can resolve this. I would propose at my end, I think there are ways – and I know that Joe and I are on a different page because I've talked to people here lately, in particular some producer-processors, they market their milk, a cream topped milk, for example. I just talked to a gal that's marketing for 7-1/2 bucks a gallon, some of them for 8. Way more than what this market's bringing Mat Maid. The market will pay it. But you can't commodity – you can't want to get all the market share and ship in a bunch of milk just to get volume. I think – you know, I'd like to see a label that says Alaska Grown natural, no added BSE, no cow crank. A quality product right here it is. We've got it. But we don't market. I know people paying 8 bucks a gallon. So why don't you guys open this door?

I'm getting up there in years enough, I don't have kids in the business and I don't have siblings and I don't have partners. It's my wife and I. And you know, I am task – I'm – I'd rather go – I'd rather try to retire. I'd like to see a dairy cow buyout. Take that $650,000.00, give us 12 or 1,300 bucks a head and I'll go away. You'll never hear about a bad dairy – you know, a dairy thing in your life unless somebody wants a cow. And then I got a farm with dairy for you.

But I am too old to build a processing plant like Mr. Lintelman did. I don't know when you started. I've – you know, there's a good model right there. Very successful. Highly spoken of all across the state. I don't know what the answer is in this industry, folks, but I can tell you one thing I cannot go backwards. Maybe Paul's got room for me in the potato business because I got a lot of land. I experimented with some potatoes this year. I'm going to have to diversify.

What – the biggest thing, the biggest problem I have with the whole thing, lack of infrastructure here is if I were anyplace else in the United States, folks, I could sell these cattle for $300,000.00. And right now if I kill them all down at Frank's, I'm looking at 70, 80 grand. So because the border's closed and because of other things, and because of the environment – or the economic climate here in the dairy industry, no matter whose fault it is, I don't have the opportunity that almost everybody else in the continental United States has or does have at any point in time to call an auctioneer, and not only get rid of my cattle and pay my – pay the people I owe money to, which I would love to do. I'd do it tomorrow. I've got dairy equipment, like a TMR mix machine, a Meneur (ph) livestock handling equipment that they ain't nobody up here wants it. Paul's not going to spread his potatoes with my shit spreader – or my manure spreader. Excuse me. I don't know how many of them slipups I get, but manure spreader.

You see, that – these are the unique things to our industry and that's why I think you hear a lot of – I'll call it crying and whining. It's the simple truth, folks. If you want me to go in at 2,500 bucks a cow or 2,000 bucks a cow and borrow money, and put some of my own money in there and 4,000 hours a year – 4,000 hours a year is industry standards for dairy people, and I didn't believe it. But if you're going to do that and clear land and what we're doing out there, guaranteed, you're going to put 4,000 hours a year in. You want to work that hard to find an environment where you can sell your cattle for one-fifth of what you got in, and not even have a market for your equipment. It's insane. It's insane. I don't know how I got here. I honestly don't. And if I could turn the clock back, I would. I would like to see a buyout.

I've got a lot of notes here. I don't know where I'm at on time. I'm going to breeze through them real quick here. I could go on for hours here, you know that, because you've listened to me before. I think what I want to do now, I want to address something – I was one of the loans, I believe, that Candy was talking about, one of the two loans that were – I don't know what you called them, political. But I will state this right now, I have never missed a payment in 11 years with the State of Alaska at Point MacKenzie. I have paid every two weeks because they take a check out of my milk check. I have borrowed a hell of a lot of money up here, and my wife, I'll tell you what, she is an angel. She has worked her behind off out there. If I wouldn't have had her, I'd be on my butt right now. I am lucky I got a good woman. But I'll tell you what, when I hear about these political loans – I got an RFP on that farm. I bought it for 100,000 less than the other RFP boy that put in. But I'm going to tell you, he was a boy. He slept nights at UPS, was a mechanic. He wanted that and I know he wanted it, and he told me I just want it for the land. He'd never milked a cow in his life, folks. Oh, a couple goats out in the back, which is fine, if that's what you want to do. But there's a lot of difference.

We take – exclusively our income comes from agriculture out there. And I've done a lot different things before. I commercial fished in Bristol Bay. I run some shops down in the Dakotas. Hell, I trapped down there for years when furs were 100 bucks. I've done a lot of different things. This is the hardest thing I've ever done. And if you want to a challenge, I've got some land and some cattle at Point MacKenzie that I will sell you.

We worked out there, years. We never got anything. When I first came here, the Division of Ag, Mr. Kramer told me the State of Alaska is going to give you nothing. And I have never rented land out there for nothing when I've watched other state employees get buildings for nothing. I have made my payments. I have cleared land out there. I have helped the state sell land out there by clearing land and being a steward of the land.

Anyway, I'm going to ask anybody if they have any questions. I hope somebody has some solutions.

Rex Shattuck: I have one question for you. For those – I will say I have had product from a culled cow that was processed through Mt. McKinley Meat and I couldn't have told the difference in hamburger personally. I didn't have the cow slaughtered myself. And I didn't find anything wrong with that. Would you be willing – I've seen – I've had the opportunity to go through a couple of the farms out at Point MacKenzie. And for those who haven't, would you be amenable to, if somebody approached you, to walking them around the farm, the setup, either you or Craig?

Wayne Brost: Any time. I mean, you know.

Craig Trytten: Bring them on.

Wayne Brost: Yeah, any time. We've had little – with school tours out there. We've had some Farm Bureau tours and you've been to my place.

Rex Shattuck: Yeah, well, that's why I'm saying. I think, you know.....

Wayne Brost: Anybody's welcome.

Rex Shattuck: At the same time, I would actually, you know, wonder if, you know McKinley Meats or Mat Maid would be willing to kind of tour somebody around.

Mac Carter: When you said $23.00 for a break even, is that where you want to be at or – because that means you're not going to be making anything. It's just going to be break even.

Wayne Brost: Well, I am making something. What I mean by breaking even is I mean I can pay my – I can pay my land payments, I can pay my chattel payments, I can pay my cost of production, I can pay Ken his grain bill. What I'm saying is, I'm making my payments. I'm not – right now, I don't know of anybody that's got a retirement program out there or for that matter, I know very few of them that have a pretty comprehensive, even for themselves, health insurance program. There is some additions. Yeah, to make – to have what my employees and I would like, maybe 25. But I can make my liabilities with $23.00. Now that doesn't mean everybody can. And I think there are people that can do it with 20.

Talk about debt load. I think it's every relevant. I can tell you right now if I didn't – wasn't paying the state and the feds it would be a lot easier.

Mac Carter: Well, yeah, if you didn't have all the debt, yeah, sure, you would be able to recoup everything you got.

Wayne Brost: The management has a lot to do with it, but if you manage and don't have a huge debt, you can bank some money. But when you go out there and try to carve out one of them farms, I drug the equipment in, I drug cattle in, I'm still clearing land. You know, I mean, it's different. It's different than.....

Mac Carter: Well and as was said by Chad and I think Candy also that just about every farm is subsidized through one form or nature. I mean, there's very few that are not. You know......

Wayne Brost: Especially commodity type.

Mac Carter: Yeah, commodity type in farming. It brings in the picture the fact that you know, you're always going to be behind the eight ball trying to, you know, play catch up because your debt load is so much larger than most businesses are because you're in the millions and trying to recoup with an industry that constantly goes up and down and changes and has various, you know, factors about it that doesn't allow it to be stabilized. There's no stabilization within it. It creates a market for you that you're going on a monthly, a weekly, or whatever basis. You know, and then in a year, and you're also going on a basis that will change the whole outlook of the picture.

So you know, as far as what you're up against, you know, is -- the pressure is surmountable, I can imagine. I don't know, but I can imagine from what information I have been able to obtain over my time. But you have to look at the bottom line. I mean, we know what you need to survive, but then again, the dairy produc – you know, a manufacturer over here that turns that milk into a sellable product can only afford to pay so much because they're only going to get so much once it goes to the store and the consumer buys it. So it's a Catch-22.

Wayne Brost: You know, that's an interesting point. We are always in ag – of course, we're always here's what you're going to get. But when I go to buy a quart of oil or a tractor, you know, I have to pay the price. On the mostly – and most of the time on a retail level. And yet when I go to sell my product, I say, well, what are you going to give me, Joe. And he says well I can only give you 20.75. And if I'm not making money, I might have to cut you back or the new guys coming, they're going to take less. That doesn't work. That does not work. I can guaranty you that.

Now, if you don't – if you just want the processing end of it to live, then do a dairy buyout with the 650 and we'll all go away and he can import - your Mat Maid or whoever wants to can import all the milk from the down there. Or if one or two producers want to keep doing that, then blend a little in there. I say you got to get a niche product and you got to go a different direction. Even if just part of it is.

You know, I've asked the Division of Ag, we tried our hardest to put a co-op together to build a little plant like Mr. Lintelman's Northern Lights Dairy up there. And we've asked the Division of Ag several times and never got an answer. Number 1, can we get the Mat Maid label and jug that milk. Number 2, if we can't get the Mat Maid label, can we sell part of our milk to Mat Maid, will they still have to come and pick it up. In other words, if Wayne Brost starts jugging milk tomorrow and I only can sell 100 gallons, is Joe going to come and pick up the other 500 gallons because he might tell me, I don't want to pick your milk up because you're a competitor now. We've never gotten answers for those things.

We've tried, as producers, to work through this deal here and we've hit some walls here, folks. That was before you came on here, I believe. I also asked them that when they sold Tract 17 that if it's so darn lucrative to run these dairy farms, Joe and his colleagues should come out and buy that farm and run it. You know, or I asked them, hey, if you don't want to do any of the above, make this fee simple land so I can get out of debt and pay my debtors. You know, I've seen them take these farms and then the next time they sell it, they sell quite a bit higher. They make money, but the guy that goes out there and busts his butt for a while, he loses everything he's got.

Paul Huppert: How come, Don, you don't sell your milk for $8.00 a gallon?

Don Lintelman: Well, I could never get it for one thing no matter how good it was.

Paul Huppert: So you'd be a classic example to see if that's a possibility.

Don Lintelman: Well, you got people that are – oil prices are up now so our sales are down. And instead of buying a high quality of milk, they're going to buy the cheapest one because they have to pay for this gas that's coming on. And the next thing is, well, I got a toy that I got to have to have. So the kids will not benefit by any of this stuff other than the toys that they have to play with. So there's a lot of factors. And then you got the WIC program has cut our throat in this state. They've put up signs that you have to buy the cheapest milk in the store. And then the stores will bring milk in for a commodity sale. They'll probably raise the price of Nabisco products to take the ricochet off in milk. So we only sell milk. We don't sell Nabisco and all this other stuff so we can pick the added costs up. So our sales are down a tremendous amount. Not in the military, but on the shelf of Fred Meyer's and Safeway.

Paul Huppert: Yeah, but the military.....

Don Lintelman: The military is pretty much good for us, very good for us.

Paul Huppert: Yeah, but I mean you can't dictate a price near $8.00.

Don Lintelman: No, I can't. No.

Unidentified Speaker: Not even there.

Wayne Brost: The military takes all Alaska milk, is that correct?

Don Lintelman: Yep. Yep.

Wayne Brost: And you take all Alaska milk.

Don Lintelman: Sure.

Wayne Brost: When you buy milk from Joe down here, you don't get Outside milk, do you?

Don Lintelman: No.

Wayne Brost: You get our milk.

Don Lintelman: Yep.

Wayne Brost: Why? Higher quality.

Don Lintelman: I demand it. Either that or just – we'll just go out of business if we didn't get the milk from down here.

Wayne Brost: And you advertise it's all Alaska milk.

Don Lintelman: Yep.

Rex Shattuck: Question for you. It's probably more related – you say you can't get that price. Have you tested that market?

Don Lintelman: Oh, yes.

Rex Shattuck: I mean, have you marketed that Alaska natural (indiscernible).

Don Lintelman: We can't – yeah, we can't put no sign up in the store either, at any stores. Joe will even say they can't put signs up in the stores that say this is 100 percent Alaska milk, or 40 percent Alaska milk or whatever. We can't put any signs up in these stores at all. Because they're the ones that dictate the price to what we can pay. In other words, Safeway has in the last couple of months has dropped our price twice. And we haven't dropped any of their price. So as soon as the corporate managers move out of the stores and they don't get hollered at all the time from my salesmen, why then they'll raise the price up (indiscernible) looks good. You know, good for them. A good profit margin in the store.

But – so then I got to send my sales person out to go out there and talk to the corporation so they can bring the price down again. It gets to be a yo-yo type thing. So straight across the board I can only charge so much to the stores and that's it. They won't pay any more, but they'll charge more because it's an Alaska product. Now that ain't right. If you're going to say this is an Alaska product, yeah, it's all right to say that, but thing is don't be bringing the price up. The store has to raise it up just because it's an Alaska product. Why should the people in our state have to pay more money because it's an Alaska product? This way we could sell more.....

Wayne Brost: I would rather.

Don Lintelman: We could make more – huh?

Wayne Brost: I would rather support local economy and I would rather pay more. And I think that's why the 70 – success of Mat Maid.....

Don Lintelman: The standard person will not pay any more for the milk.

Wayne Brost: Well, somebody is.

Don Lintelman: They will not pay more. Well, yeah, there is some. But you can't get your infrastructure you need to – on a small amount of milk that you're producing. In other words, you don't have the veterinarian services, you don't have the tractors you buy, they don't have the guy come in and service your Surge processing or your milking equipment. You don't have the veterinarian there to do what he's supposed to do to preg check your cows. You got a guy that's a dog man or a cat man. He'll come in and preg check the cows, well, I can't check them. I got to have 45 days or more, 90 days. Well, this one ain't pregnant.

And then you go on the whole 90 days and you found out this cow isn't pregnant. Well, that cost you money. That's where some of your problems are also. Not because you're a bad manager, it's because you don't have a decent vet out there checking your cows to get them within the realm that you need to do them.

Wayne Brost: Well, that's a lot of – from lack of infrastructure.

Don Lintelman: And then the next thing you need to do is get a ultrasound and learn how to do the ultrasound yourself. That's what we're doing right now.

Wayne Brost: That's economies of scale also. And then you have to – they're fairly expensive. Ken, you had a question?

Ken Sherwood: Well, just – you mentioned the Timothy hay and the grass hay and the Omega 3's. When Shipka gave his presentation last Monday, he said one of the problems as I recall for low production in Alaska was the Timothy grass hay was a lousy feed for dairy cows.

Wayne Brost: It's pretty low protein.

Ken Sherwood: Yeah, I mean, he also blamed things like you couldn't get cottonseed meal, you couldn't get brewer's grain because of, you know, for a lot of reasons. But he said that herd – I think he said herd size and he said production were the two biggest factors for the dairies in this area not making a go of it, in addition to debt. In addition to debt.

Wayne Brost: That's pretty relevant. But, you know, there's some trade offs there, Ken. I mean, you – if you want a top production, then go down there and crank BST to them and you'll get top production. That's another thing, you know, that we don't use that we should be marketing in that niche market, I think, because we don't use that. That will boost your production quite a bit. So just looking at overall production doesn't give you a true picture. Sure, they produce more. They burn them out a lot faster. You know, and they have a lot of different things.

It's not just that they produce a few more pounds per cow. They have a lot of broader spectrum of forages, but they also have a lot of – it's like you said, professional vets, specialized vets, hoof trimmers. They have huge Hispanic force. You got to be bilingual now to get a management position in any dairy. They have economy of scale because of a lot of different things. Now they're getting super cheap feed stuff because of the distiller's byproducts. But anyway, I don't know what the answer is here, folks. I – the timekeeper is here, so.....

Ken Sherwood: Could we – I want to ask one more question. You mentioned niche markets. Now Gary Beu's operation is in foreclosure. He's got a niche market where he's doing a value added. He's making milk curds and cheddar cheese and fresh mozzarella. So – and I know he's not on the least of people to speak, but I mean, I always agree with the niche market thing and getting more money for your product. Why isn't – what's Gary's problem? I mean why are we.....

Wayne Brost: I guess you'll have to – you know, I don't understand that. I've talked to and visited some processors, like I said, that are owner-processors that are very successful. Some that haven't been doing it too long and some that are in their third generation. In fact, one that I looked at used to sell milk to Mat Maid, very successful, but they have the whole gamut. They have their own cows, they have their own processing machine. They also make ice cream. That's where they claim a lot of their profit is. And that's another thing that I think a small plant could do like Lintelman's. It's a higher profit. But I just think you could either have to be really small and market your all Alaska milk or – I don't think the commodity thing works.

Paul Huppert: Where is that person you're talking about located at? In Alaska?

Wayne Brost: Well, one of them was in Connecticut and one was in Washington.

Paul Huppert: Well, yeah, but you take.....

Wayne Brost: And there's one right here that's been doing it for years.

Paul Huppert: Correct. But he's – he also has his problems, which is (indiscernible) to Alaska. And he don't get $8.00 a gallon. But you take Washington State is a good example, in Seattle there's three times as many people as there are in the entire state of Alaska.

Wayne Brost: It's relevant. It's relevant to production.

Paul Huppert: Our predominant market people are the big – two big companies and the military. Now you can go ahead and talk about the smaller markets, but they're not going to eat up the supply of product, I'll tell you.

Rhonda Boyles: (Indiscernible) David then Rex then cut it off.

David Wight: Obviously, from a different industry so I – you know, on this steep learning curve. So I'll be careful about how I ask this because I don't have any assumptions behind it, but in listening, it feels that – my limited new view would be that Mat Maid and the producers are on the same side of the fence, but it sounds like in listening to you that you're on an opposite side of the fence. And then I heard some discussion about maybe one of the solutions would be to have a co-op for the producers. But if it's market price, which is driven by the big food chains that bring in milk and sell it at low prices, I don't see how that fixes it. So I need a little help in trying to unravel this. I know you spent a lot of time on the business side, so I think that's important for us to hear and certainly for me to hear so that when we start talking about solutions, that I have the background of what the producers are thinking about in terms of running their own cooperative versus selling to someone who pays at least from what I saw on the numbers, pays more than the market price for milk anyway.

Wayne Brost: First of all, I don't see what you mean – what do you mean by more than the market price?

David Wight: Well.....

Wayne Brost: Because if you were in Washington for example and.....

David Wight: Right. And that may be the help, see (indiscernible) talking about.

Wayne Brost: Well, here's the thing, if you've got somebody saying well, we're paying you more than the market price because they're comparing you to one of the cheapest producing areas in the United States. Why don't they say, well, we should get what Hawaii's getting. Let's get California market order, plus 13.30 and then we'd be up, what, about 33, 4 bucks a hundred weight. We'd be 30, 40 percent more. And so.....

David Wight: That's not what the Carrs and Fred Meyer's settle for in here. So it's not what Mat Maid's paying for it; it's what somebody else is going to.

Wayne Brost: Not if you're going to bring in in commodities is what I'm saying. I think you need a niche market. That's what the co-op.....

David Wight: Okay, that I understand and that's a separate business issue that we need to talk about. But just as a commodity, it would seem to me that the producers and Mat Maid are pretty much on the same side of this thing. They're trying to get the best price they can for the local milk.

Wayne Brost: Right.

David Wight: And what's killing them is the big guys that bring all this stuff in and they sell it at really low prices and they even sell at a loss leader to get somebody in their store to buy something else. I think I heard Don say that there's indications that they discount milk on a day to get somebody in to buy something else. And we don't have something else to sell in this circle of business that we're talking about. Am I right on that? Am I seeing this thing right?

Wayne Brost: Well, I'm not an expert in marketing or processing and that's why – as a co-op, I tried to get the producers together for two or three years now. It hasn't happened. They're fractionalized. There's one that's near retirement says I don't want to mess with it. It's too much of a headache. There's another one that's pretty near to retire. You know, we're down to three or four players here down here. Three or four players; maybe two in a year or so. We got one going out next week.

I – and I think when you get down that small, that's what I'm talking about. I'm not talking about importing tons of milk from – and having this big label and this big workforce. I'm talking about a small plant and marketing it as a natural product. Not – I think put Alaska Grown label on it.

David Wight: So organics or.....

Wayne Brost: Natural. Not organic, natural.

David Wight: .....natural or (indiscernible) Alaska Grown, something like that.

Wayne Brost: Alaska Grown for sure.

David Wight: (Indiscernible).

Wayne Brost: But you can't do that if you're bringing in 80 percent of it's Outside milk.

David Wight: There might be a higher price for that is what you're saying.

Wayne Brost: I think you can get it. That's my opinion. I.....

David Wight: But Don's comment is so far he hasn't been able to get that price. Just as – not that you couldn't, but so far he's not been able to do it. Did I get the discussion right?

Wayne Brost: I think you're right. But I think that in the Anchorage Bowl I think you could get it. I know there are people that pay – you know, I've worked with people on this business plan that are paying 8 bucks a gallon for organic milk. I've got other friends that pay that for organic milk and they – I think we have a product that's very similar. I don't have the answers. I'm not an expert in the processing and marketing end.

David Wight: One thing I am fairly familiar with is income levels and at a certain level where you have discretionary income then you do things like organic milk and other things. But when you're right at that kind of boundary, then when you start paying $3.00 a gallon for gas, which is the industry I've been in, and that costs you 50 bucks every time you fill up your car, then you start – you quit the organics and you go down to the commodity price again. You make some choices as to what you're going to be discretionary about. And unfortunately, for us as we talk today, people probably are discretionary on the food side, then they go still want to buy the toys for the kids. But I don't know that. But they – you have to have discretionary income before people really start buying in niche markets. But I do think that's a possibility. I just wanted to hear.

Ken Sherwood: Wayne, do you take a salary?

Wayne Brost: Pardon?

Ken Sherwood: Do you take salary?

Wayne Brost: No. No, I don't take a salary. That's back to no retirement.

I haven't put anything in retirement since I've been at Point MacKenzie. It's called deferred compensation, Ken. If I can survive long enough to take advantage of an inflated land price, which I have – like I said, I haven't seen a dairy farmer do that yet, then that's where I'm looking at maybe some retirement.

Ken Sherwood: It looks like you've added on to your original farm. Has this extra acreage helped you cut down on your losses?

Wayne Brost: I think what it does is it gives me economy of scale for me – the – to have some fairly decent equipment. In other words, I've got enough acreage in the hay deal where I can have good equipment, be efficient, get up and get stuff up pretty fast and yet, the last tractor I bought was – had a blown engine. In other words, I don't go out and buy new tractors. But I have got enough land now to spread the payment of the equipment, the harvest – forage harvesting equipment out over more acreages so I don't have to put it all under the cows, you see. That helps a little bit, yes.

Ken Sherwood: The state financed the acquisition of the additional acreage? I mean, who did you.....

Wayne Brost: Actually, Candy recommended that none of my loans be given. She recommended that I weren't given loans. But they did, the Board of Agriculture and Conservation did give me some land contracts. I don't have – what would you call ARLF loans, Candy?

Candy Easley: You have loans now.

Wayne Brost: We converted them from land contracts to loans because......

Candy Easley: Yes.

Wayne Brost: .....there was a statute change and we went from, what, 8-1/4 to 5 percent 30-year fixed. If you had some equity in your property, enough equity, then you qualified for that and that's what I've done out there. My chattel loans are with Farm Service Agency and credit cards.

Rex Shattuck: You'd indicated that you have 450 acres.

Wayne Brost: Leased.

Rex Shattuck: Leased.

Wayne Brost: Yes.

Rex Shattuck: Now what's – what do you mean, they're leased.....

Wayne Brost: I lease them from other neighbors. I've got an old neighbor that had a stroke and I do some of his. And I've got another guy that lives out of state. I do 80 of his. I pick up some leases.

Rex Shattuck: And I thought that was – you were leasing out some of the property you own.

Wayne Brost: No. No, I am leasing them so that would add on to my acreage.

Rex Shattuck: You – coming from Vermont, seeing a typical Vermont farm and going out to Point MacKenzie, there's a significant difference in my mind as to what I grew up seeing versus what I see out there. And what you've had to go through, the rotation that the clearing of – you know, all that sort of thing. That's why I encourage people to go out and take a look. But don't you –

you don't lease some lands to – I mean, you're – I thought that you had some folks producing produce on your farm as well.

Wayne Brost: Oh, I've got – yeah, I've got – on one of the tracts there there's a small – there's a barn there that I use for my heifer barn down there. And there's a pasture separate away from the dairy. We have got a guy there that was a local that lost a lease in Palmer area. And he has some – he's a farmer's market. He does a lot of vegetable production and some honey production. Yeah, we're looking at potatoes because this year we did eight acres potatoes. But I'll be honest with you, here's another big problem. And I quite frankly I am guilty of not doing as much homework as I should have when I bought into that Point MacKenzie project.

What was the scientist's name that was out at your place from the university? His bottom deduction was it's the poorest damn soil I've ever seen. We have very acidic soils out there. We have a narrow band of forages that we can raise. Our potato production is about half the tonnage that Paul can get in the – it's how good a manager, that's not the total picture, fellows. A lot of the picture is what we're doing with what we're given here. In other words, I've raised crops in areas where I had number 1 sandy loam irrigated. And I can tell you what, I can raise two or three times and, you know, you can raise twice as much into Palmer just because of the soil differences. So there's a lot of factors.

Paul Huppert: Well, you know, the lands in the Matanuska Valley were very acidic when they were first cleared and they sweetened up over the years.

Wayne Brost: Well, they sweetened up, but the topsoil out there is – we're a foot deep to gravel. And you guys are like six or seven. But anyway.....

Rhonda Boyles: Wayne, thank you.

Wayne Brost: Thank you very much for your time. And thank for everybody on the panel for all the work they're doing here. I appreciate it.

Rhonda Boyles: We appreciate you. Trytt, you're on, buddy.

Craig Trytten: (Indiscernible) short now or (indiscernible).

Rhonda Boyles: Nope. I promised you you could take as long as you needed. If anybody faints from hunger, it's your responsibility though, Craig. No pressure.

Craig Trytten: Got to eat meat. I need one (indiscernible).

Rhonda Boyles: You've got 30 minutes and let's try to keep our questions pretty (indiscernible).

Craig Trytten: I need one of the blank questionnaires so I can answer these questions orally. I'll just take care of that first. How many acres are farmed. It's 300 acres. Don't lease any ground off my farm. How many cattle do you have. We have right at 300. How many cattle are milking now. I think they're doing 88, somewhere around in there. How many – how do you breed your cows. All natural. How many replacement calves do you have? Well, that's a question – I don't know how you want to have it, calves or heifers or whatever. We have about 300 head, approximately 110 cows. So take out a few bull calves. I'm going to say 50 calves and the rest are replacement heifers. Pardon?

Unidentified Speaker: I couldn't follow that one.

Craig Trytten: Well, it says how many calves do you have.

Unidentified Speaker: Replacement calves, yeah.

Craig Trytten: Replacement calves.

Unidentified Speaker: So that would be future milk cows.

Craig Trytten: I would say take 200 head, take 50 of them as calves and take another 150 as larger heifers. We have a lot of heifers. Real good luck. My daughter's only lost two in the last two years. We had a good run on them. We have a few bull calves. I'll address that later. It says do you breed milk – or (indiscernible) day old crossbreds. No, we breed the heifers for own because the border's closed. How many people do we employ. No one. We cannot afford to go pay some suit in town a thousand or two a month for workmen's comp. (Indiscernible) hiring somebody to (indiscernible). What's your veterinary bill. I did not bring that figure with, but I think it would be fairly consistent with Wayne's. His said his was 5,400, right, Wayne?

Wayne Brost: Yeah, that was just – that.....

Craig Trytten: What do we have a veterinary come, like three times a year maybe?

Wayne Brost: Oh, three, four. This also includes some meds in there, vet meds.

Craig Trytten: Yeah, mastitis tubes or you know dry cow tubes, something like that, you know. What do you do with your day old calves. I don't sell them to prison. Wayne lives next door, so whatever – some 4-H kid usually would make a run on us in the spring, but not usually. We keep them until hopefully they have some value to them. When I sell a day old calf, I say $50.00 or it stays right here. And then we're tacking a surcharge on them now that – 50 cents a day after that or something because milk replace is what, 62 bucks, Ken, a bag?

Ken Sherwood: Somewhere around there, yeah.

Craig Trytten: And that's just – that doesn't even really break even on the milk replacer. What kind of forages do you feed your cattle. Timothy hay and we plant red clover too. We're trying to get that going out there. What percentage of your forage do you produce. I'm going to say half, buy the other half. We buy all our grain. Buy from Robinson's up in Delta. It would be mostly barley and some wheat right now for this year. Traditionally, I've bought from Ken complete mix. Spent up to $200,000.00 a year with him. He does a good job. He's got good guys in there. Buy it all, don't grow any.

What monetary value would you put on your cull cows if Mt. McKinley & Meat closed. Zero. There's no one, you know – you guys want to come, we'll help you out, you know, forget it. What is your break even price for milk to keep you operational. I would say at least $25.00. I'm one of them $10,000.00 cowboys. I'm the one – the horror story that Chad talks about and whatever. And a lot of it was not to my – you know, the money come. Said no. It just kept coming and I'm responsible to pay it – even when Senator Stevens wrote off then I get the IRS bill for it because I got a 1099 for money that I never wanted or never saw. It's like bad news.

Do you have a succession plan for your farm. First, you got to be able to survive, feed your family. You know, how would you put, sure you'd like to have your kids have it. But first you got to break even. Like Wayne and Veronica, all our money is in our farm. We have no retirement. We've never paid ourself any salary. Everything, just right there. Hospitalization insurance, barn payments, you know, we just keep paying. And we've always made a payment. We made our payment to Candy, we always made our payment to Chad, we made our payment to you. We've never had any problems with you, Candy. We don't owe you any money. We've been operational. But this is going to stop. We're done. We're broke.

When the $2.00 a hundred goes away, it's time. You know, I tried to tell the banker, here's the cows, whatever. There's no room any more at all. It's really bad, guys, really. We have suffered beyond what you can imagine. My wife took a job last year off the farm, 40, $50,000.00 last year, all of the farm see a $5,000.00 loss. Our equipment wears out. There's no replacing it. Nothing. We try and survive, we try and make our bills. I have two children. One went to fifth grade, quit school, stayed home and farmed. The other one went to 10th grade and stayed home and farmed. My fifth grade girl went and got a GED. My other one hasn't. They put their life in this farm. They've worked day and night. Nothing. I don't what could ever comprehend that why we ever came here. You cannot even believe it. We work around the clock, around the clock, and around the clock.

So a lot of you people in here can have a job with retirement, with hospitalization, sick days. We're out there laying in the snow and the mud. And we got bill collectors after us. We paid them. We're even. We're still paying our bills. That two bucks saved our can a little bit for a little while. But like Joe, our production costs in the last two years, everybody we do business with, from the sewer pumper to the refrigeration man, puts a surcharge on it. Ken, the feed price went up, what, from (indiscernible). I bet you three years ago it was $100.00 a ton less than what it is right now, correct?

Ken Sherwood: No, I don't think it would be that big a difference.

Craig Trytten: It's substantial.

Ken Sherwood: I'd say it would be 20 or.....

Craig Trytten: It's substantial though and then with the freight, the grain come up and the freight come up, and if you feed a ton a day, you know, that payment just multiplies. It just that we can't go out to the milkman and say, hey, it costs me 100 bucks more to operate and get more money. But he can't get it either. You know, they pass it all down and it stopped at my house. You see what I'm saying? He could sometimes pass some on to a whatever. We have no place to pass it on to.

Last winter it finally became the end when the great idea was to close Mt. McKinley Meat. I said, that's it. Because in America when a dairy farm – and I farmed all my life – you can grow your farm however you want to. We are good manager. I could grow a herd a cattle and you could have a production sale every five years. Probably grows $2,000.00 per animal. Keep all your heifers back. Pay your bank off, whatever, you know. I had an auction sale in 1986. I averaged $1,000.00 a head in a depressed economy where they were getting

$400.00. I know what I'm doing. We have no markets. We have no infrastructure.

I said to my children, why are we doing this. Because I just waited eight weeks to haul four cows to the kill plant, Mt. McKinley. Right now if I pulled the bulls, I couldn't even kill my way out of this place in two years. Right? Frank, still here, am I lying?

Frank Huffman: No.

Craig Trytten: No, I'm not lying, am I? And that's just me. This is what this poor Martin is going to be faced with in another week. He thinks that maybe one of the other producers is going to buy his cows and that kid wants to bail. We're – you know, you guys don't have a clue but what you're rolling stock becomes worth when it's worth nothing. And then when it becomes a liability around your neck and you can't even pay to feed it. Just think that when I start killing things, I got to, you know, keep feeding it just to get rid of it. It's more than asinine.

In the Lower 48, I could call a sale barn. Minute I hung the phone up I could go to the radio and you'd turn it on and it would say Craig Trytten's going to have production sale. I happen to know the trucks and the trailers, the men with the gates would be in the yard. We'd load cattle. I'd have to run to drain the pipes to get to town and get a very good check, you know, I could walk in my heifer barn and see 70 head in there worth $150,000.00. I couldn't even kill them for 20,000. I wouldn't even get 20,000. Some of them they wouldn't even take. They were through the wall. Those little heifers over two bucks a pound in the Lower 48. Didn't matter if they're dairy or beef and they still are that way.

And the sad, sad thing is Alaskan people want what we have. We're the warm and fuzzy. Mr. Eckert (indiscernible) we have a phenomenal thing here. These people pay 2-1/2 bucks a gallon more for milk. It's true. We have – anybody comes to our farm. We have friends all over. They love it. They buy our product, they support us. They support Mat Maid. I just really have heartburn about all the milk coming in from Lower 48. In the last 11 years since I've been here, as God is my witness, there's more milk that's went across that production line in Matanuska Maid from Washington. So we're all fools here, because we're working to subsidize Alaska farmer what our – the Washington farmer without a change in policy. Why are we doing that?

It can work out, but it's not going to be the grand scale of the 15 boys of Mat Maid if it's going to be. But the state taxpayers shouldn't have to subsidize farming, should they? I believe in sustainable agriculture, not subsidized agriculture. If you take the price of milk, put it up on the board. It's 11 gallons to 100, Joe, (indiscernible) for shrink, correct? Just mere pennies on us sometimes can affect us. I'm going to take a wild punt and say you're out back door 3.40 average and that's even a little high, I think, ain't I, on your one percent, two percent, skim and whole?

Joe Van Treeck: We're three percent for this year.

Craig Trytten: No, I said 3.40 a gallon is what I'm saying.

Joe Van Treeck: Oh, yes.

Craig Trytten: I'm a little high, right? Average 3.40 a gallon you're out your back door for that?

Joe Van Treeck: The back door, it's less than that.

Craig Trytten: Less than that.

Joe Van Treeck: But delivered, it's a little more than that. So it depends on your blended out.

Craig Trytten: Even if we use the price of 3.50, okay, I think we were all asking, we went to select stores. Basically, folks, we're going to be down less than 500 cows within 60 days here. That's smaller than most average size farms in California. You know, I mean – you know, and that's all of us together. Then take out what Don uses, you're still using a load a week, right?

Don Lintelman: Oh, yeah. Sometimes two.

Craig Trytten: Sometimes two. So that's two to four days of our production goes to him to keep him – and you know, I appreciate he buys all Alaska milk, no problem. And I understand Joe has to – this thing where you got to keep all his employees going. You got a cost of production. You got to try and keep your overhead up. You know, I'm not in that game any more. I tried buying cows or whatever. We just do what we have. We take what we got and we work with it. You know, and I think we need to have a new plant. I think it should be at Palmer and I would totally support that. The money's gone. Whatever. There's people out there to support it.

I want to have an industry when I get done so my children are there. I want to have an industry so that if I call an auctioneer my cows will sell for $2,000.00 apiece. Like Rex said, why aren't they worth more if the border's closed. You're exactly right. They should be a goldmine, absolutely. And there shouldn't be no reason why. Because people want to pay it. You've got to create a supply and demand situation. We need to be price takers instead of price – or price makers instead of price takers. You know, we got to be (indiscernible). I have no problem with him making a limit. I have no problem with the Teamster people making a limit. We – I – my hay supplier got a letter, anonymous – and Wayne's got a letter anonymous. I know that one of his come from the Teamsters. And it's come from Mat Maid employees and whatever. They come put together like a ransom note in the TV show with – honest to God, you can't believe these things. I've always supported Teamsters. I was one for years myself; so was my father. I come from Minnesota where it was DFL, it was farmer labor. But you know what, I have yet to see a Teamster come to my farm and buy a cull cow or say, what can we do.

They should be here at this table. I have a real problem about this committee right here. Rhonda, remember how I just lost it at that ag board meeting?

Rhonda Boyles: You're doing good today.

Craig Trytten: And I did. I really, you know, especially Mr. Eckert right here. And I told him right to his face, I said what in the world are you doing on this committee. You have product on the shelf against Mat Maid. This could go one way or the other. You see what I'm saying? I looked at this board as a set up for the processor. You got labeled as a token democrat. You know, I mean, I had problems with this. You know, where's the farmers, you know. They didn't even have Joe on the thing, you know. But so far, I think it's working out. You guys are trying to get educated. You're asking some good questions, really good questions.

So you have to decide. Where's the Alaska taxpayer going to draw the line, what's going to happen. Because I think the federal funds are zero. We have a depth that we have a war in Iraq and we don't have Senator Stevens the chair of appropriations anymore. We're going to figure it out on our own. But I think we can do it. You have a lot of high value asset Midtown. I wouldn't dare guess what that land's worth down there. I think a new plant in Palmer, small, for Alaska only. We have to establish the base price for Alaskan milk, whatever that be. I think it's probably 25. It could be 30.

You take 3.20 a gallon and 20 bucks, if he has to give me 5 bucks more – you know, if he raised that price 50 cents a gallon, it comes back. He needs to – you know, you can be working on quite a less quantity of milk, so he has to have more margarine to pay his overhead, correcto? So you have to scale of economy to do that. But what's killing you, the way the I understood was 2.8 in wages or salaries. Was that including benefits or.....

Joe Van Treeck: Just basic wages.

Craig Trytten: That was basic wages. Then you just about doubled that after that, so you were at.....

Joe Van Treeck: No, no. About another third more.

Craig Trytten: Another third more.

Joe Van Treeck: Makes up the total cost of employment.

Craig Trytten: So $4,000,000.00 out of a $16,000,000.00 gross company, one-fourth.

Joe Van Treeck: No, it's about 3.4. About 3.4.

Craig Trytten: What I'm saying – but you testified that you're getting hung with some pretty lucrative benefit packages, hospitalization plans and whatever, right? And 'tis the season in the Lower 48 too. Why do you suppose the car makers and everyone else is bailing? They can't afford it. We – you know, I can't afford it for myself, let alone employees. How is Mat Maid going to afford it. I don't know what that's going to take. If it's going to take a restructure or whatever. But I have no problem with people making a living, having a job. I haven't been able to or my family. But this is going to end. It's got to end. It's got to get better or it's done. And it's going to be really shortly.

And I cannot support anything less than the boat stops. No more milk from Outside. We got our own product and we all rally around that. Joe, you used to come around at Christmastime. Got along really good. The rift occurred on the 25,000,000 on the Stevens money. That's when it come apart. And that's bad. We need to be all on the same commercial, with the Teamster, the farmer, the processor, the state, senators and legislators and we need to be out there. We don't care. We don't have to be in every store. But if we only got 500 cows, they should be coming to us. We want your milk because you know what, our customers ask for our milk. We are the Harley Davidson, we are the John Deere, we are. And he knows that.

Whether it be Fred Meyer, Safeway or Wal – one of them going's to step up the plate. We'll put your milk on the shelf for four bucks. You know, we'll give you four bucks, we'll put it on the shelf, we'll allow you some money. But we also need to be into some other things, ice cream, maybe cheese. We're going to be able to do our own balancing act. That's how they do the balancing act in the Lower 48 is with the cheese, correct, when you h ave excess whatever. Because – and then if that market grew, then we could encourage new growth. (Indiscernible) industry, feed, it helps all the builders. We need to tell us – the government to sell some land, you know, all the other equipment dealers do good. What, am I out of time? You're looking at your watch.

Rhonda Boyles: No. But you might want to answer some questions.

Craig Trytten: And the other thing I got to say, my wife and my kids were be here probably 4:00 o'clock. They might want to say something. My son does own probably 100 of those cattle. He owes some farm debts, substantial and you might want to say – ask him. Are you here or not, you know, I'll take (indiscernible).

Rhonda Boyles: Questions, gentlemen.

Craig Trytten: They just want to go eat.

Don Lintelman: No, I think he covered everything. I can understand because I do both sides of it. I can understand where he's coming from on this. And I think a lot of infrastructure that has to be done in order to bail these guys out. Like they got to get cheaper feed costs, they got to have a veterinarian there. They got to have equipment that they can buy and dealers to fix and repair their equipment. And I understand where he's coming from because I've had the same problem.

Paul Huppert: I'd like to ask one quick – this 25 percent differential that that talked about, Chad Padgett, how – in a perspective, how would that fit in your operation. What big difference.....

Craig Trytten: I was the one that originally come up with the idea and give them because of the COLA, whatever. The 25 percent is – you got your schedule F, okay, Chad, correct? Okay. We're out here, we spent $250,000.00 or we can do it on the income side – income side probably. We gross $500,000.00 from Matanuska Maid milk sales. Okay. They're going to cut me a check for what 100-1/4, whatever it is, 25 percent (indiscernible).

Chad Padgett: Wait, wait, wait. Actually, what that is, it's on the cost of production. So what you're doing is from your farm production receipts.

Craig Trytten: Well, that was my milk, yeah.

Chad Padgett: So what you'd be looking at a 25 percent cost of production based on what your overall operating costs were for any given year.

Craig Trytten: Okay. Well, gee, only cost of production. Well, it doesn't matter, guys.

Paul Huppert: Well, how would that.....

Craig Trytten: My cost of production has been what it costs me in gross sales.

Paul Huppert: How would that fit, I mean, to relieve a lot of your problems?

Craig Trytten: Oh, it would be just great.

Paul Huppert: That would take care of most of it?

Craig Trytten: Well, you're never going to get it any more.

Paul Huppert: Well, I just wanted to.....

Craig Trytten: We have some people who are really scrutinizing the bill in the Congress now and yeah, it would be a little sneaky little line item thing. We really missed the boat before. You know, and Jack come out and the Farm Bureau pay for whatever, no one was there. I've always, you know, went to speak up for that stuff. Vicky, my wife's, been in D.C. We tried to do anything. You know, I mean – it would be – can you imagine, $125,000.00 to my farm. Man, I could pay some bills. I could get out of some debt. You know, there could be a future. And we – when we take the money and we spend it. We go out and we do business all over the Valley. You know, the insurance costs, you know, everything else, the fuel, you know. We do good in hay.

I want to make a comment about the meat plant. You guys have to keep it open. That's just something that has to be. It's going to have to eat some money. It is just a price of society because DOC, Department of Corrections, you know, that's just a dead drain. You got to take care of prisoners. And Frank made the example for you, you know, one prisoner, $40,000.00 here. He's not lying to you there. It does more good than ever. You know, and it's just not for me. It's just for 4-H kids. It's just for the whole thing. For Chad, for a banker, he has nowhere to sell animals if I just get in a boat and go away. You know, you have to figure that one out. But the other part of it, it can cash flow. But the meat plant's not going. You could lower the price (indiscernible) whatever. I, you know – but I think DOC needs to be encouraged to come in with part of that budget, you know, the 150,000 or whatever.

ARLF's done a real good job managing it. Basically it was half a million, 300,000, whatever, you know, when DOC runs that thing. But you're best customer is your worst enemy in that thing. You know, your accounts receivable and all that is DOC. You know, DOA needs whatever. There's, you know, there's no way out of it. You wouldn't want to build a new one. Ken said 2,000,000 to put it up in the first place, or Frank said whatever. You're grandfathered in. You got new rules and all that stuff right. It's just something until you get the critical mass to operate in a processing and in a larger scale, or a kill facility or whatever and do it. You know, why – put together a lot of things, and we worked and we need to get some land sales. But first, we have to stabilize what we got or forget it. It's over. I mean, it's so close it's done.

Chad Padgett: I just had a quick question. Actually, it's for Mr. Lintelman. You buy Paul Knopp's (ph) milk. What do you pay Paul? I think you already answered this. What do you pay Knopp (ph)?

Don Lintelman: I pay 19. Yeah, 19.50, up to 19.50 the quality.

Craig Trytten: I'd rather take that if I lived in Delta because they have zero land taxes and it's 40 to $45.00 a ton cheaper for the barley. That more than makes up for that. See, that's what I'm saying about the infrastructure. And they need the infrastructure. And that would help us but also help them. Even if the infrastructure, a lot of it was down here because we don't have it down here either. Because we got Terry Weiland (ph) and we had to buy a tractor Outside because it was 20 grand cheaper. And we made the trip very easily and make 20 – we made $15,000.00 on that trip.

Don Lintelman: You can't believe what just a hoof trimmer could do. Our hoof trimmer now with Mt. McKinley, you know, and it's something that I used to have done every two months. The hoof trimmer come through my farm in Dakota and he went through the cows and he did it, you know.

Paul Huppert: But you know, that's pretty predominant in agriculture. Our parts department in (indiscernible) Washington for the equipment we use in potato production.

Rex Shattuck: Well, those are pieces of the infrastructure that we can impact here, a hoof trimmer, a mechanic. I mean, realistically the only ones that we can impact in terms of infrastructure is the culling.

Unidentified Speaker: Yup. And Processors.

Rex Shattuck: Stabilizing that by stabilizing that industry if it's possible then you have those other assets that come along.

Craig Trytten: There's supposed to be a rule on the books (indiscernible) pricing and whatever in the State of Alaska, isn't there? But it (indiscernible).

Unidentified Speaker: State land. There's a state law 7 percent preference if it's an Alaska product.

Craig Trytten: Yeah, but wasn't there something else about (indiscernible) pricing, and you know (indiscernible) whatever too? (Indiscernible). That's what's killing us, the Outside milk. Just, you know -- there's times when I could go buy milk in Safeway, bring it home, dump my bulk tanks, sell it to Joe and make money. That's the truth, guys.

Unidentified Speaker: Yeah, you probably could.

Craig Trytten: Twenty-one bucks. What's wrong with that?

Rhonda Boyles: David.

David Wight: I think I'm starting to get the picture and it's one that we need to study. But what I hear is a challenge around the processing model. And if I understand Joe's processing model, he's got a facility and he's keeping it full and he's doing that by buying milk Outside.

Joe Van Treeck: Correct.

David Wight: And the question that the producers are putting on the table is a model like Don's, which is.....

Craig Trytten: Mom and pop, yep.

David Wight: .....a small facility that sells local only.

Craig Trytten: And more expanded to so it would be cheese and ice cream. He's into the (indiscernible).

David Wight: Which he's doing now, but.....

Craig Trytten: No. He's – no cheese or ice cream or butter.

David Wight: You do ice cream, don't you?

Unidentified Speaker: Mix. Mix.

David Wight: So – but the – I – and that's – so that's where this tension is right now is the business model that's volume versus the business model, which is locally – local only. And out of these two, are you getting the best price that you could get for your product because of the difference in those two models. So we got to figure that out in this conference.

Craig Trytten: He's using a plant that's obsolete, correct? I ain't missing that one, am I?

Joe Van Treeck: No. What's that?

Craig Trytten: You're using a plant that's obsolete, trying to make a go.

Joe Van Treeck: Well, yeah, it's 40 years old, so.....

Craig Trytten: You know, it's the same thing. You know, I bought one new tractor. I leased it because I couldn't afford to buy it in 2000. Otherwise everything I got is 30 years or older. You know, I'm the same thing as Mat Maid. You keep passing, trying to make it, looking for better days, figure out what's going to happen next. How can you make this thing go? But there's a lot of great and good – you know, these people really love Alaskan products. I mean, they step up to the plate and they're willing to pay for it. They do – they're loyal. You never seen anything – you go – he knows. He knows what I'm talking about. You go anywhere in the Lower 48 where I'm from in the Midwest, Minnesota, Wisconsin, where it is agriculture – they could care less. It is whatever's cheapest on the shelf, that's what they pick up.

Paul Huppert: You know, there's one big problem with that and I think Don's into it and that's your production. And Matanuska Maid in the early – what was it in the '80s, when it was all Alaska grown, in the summertime they were getting more production than the market would take by considerable amount and they were losing money on it and everything else. They had cream stored, dumping skim milk down the drains, everything under the sun. Then to maintain their market in the winter months, they didn't have enough to fill that market. So instead of them shipping it in, the stores were shipping it in. And when they shipped it in, that's correct, they didn't want to give that up either. And fact of the matter is the independent grocery stores, a lot of the independents found out that you could buy another brand for less money. And you've been faced with that in your market, haven't you?

Unidentified Speaker: Yep, yep.

Paul Huppert: I mean, it's a tough one. You can't maintain the market.

David Wight: Could you have a different production level summer to winter.

Paul Huppert: Correct. Quite a bit.

David Wight: And your market doesn't change that much.

Paul Huppert: In fact the market in some cases was opposite of that. In the wintertime, when schools came on and they were marketing to the schools, their production (indiscernible). And it went down.

Craig Trytten: Your summer market's approximately one-third more, right, Joe, or a little bit more than that?

Joe Van Treeck: Today?

Craig Trytten: Yeah.

Joe Van Treeck: Actually, today we're fairly balanced. But we haven't had, you know, any of the significant (indiscernible).

Craig Trytten: One-third more (indiscernible).

Joe Van Treeck: When you take the school milk out it does make a change, yeah.

Craig Trytten: Okay. I got one other comment. My wife and I put together Farmer's Union and (indiscernible). Joe and I and Vicki had a long history. We tried some things, you know, whatever. But I – you know, the interest was there. I had a meeting in Sunshine, which is up Talkeetna corner, or whatever, about potential of dairy. And this is like three years ago or whatever. The guy that worked for Senator Stevens now is Rural Development. What's his name? Wayne?

Unidentified Speaker: Maloney.

Craig Trytten: Wayne Maloney. (Indiscernible) his last official day with Steven's office. We had over 30 people come there. And they – (indiscernible) whatever. But I mean there's people that want a dairy. You have something here that could be definitely unique. We – I think there should be a plant up there, you know, right here. This is grade B rules from Wisconsin. The Amish do it. One latern to every three cows is – I mean, they're doing it. You have to be able to pass legislation so that it doesn't cost a billion dollars to dairy farm. Because you're talking about this debt. Who has a million dollars walking around to become a grade A dairy producer? Then who in the hell would invest to be a grade A dairy? You'd have to have rocks in your head. See what I mean? But these other mom and pop's operations in the Lower 48 that have raised up these kids on these farms to fight your wars and do your democracy, and whatever were out there milking cows in an old wooden barn (indiscernible) pour milk in a can. Can you imagine what the marketability on the net would be if you had milk coming to town in a dogsled in a can? Just think about it.

Eighty percent of the tourists come here go right by that road. A lot of them stop right there because they all go see that mountain up there. When you're long on milk, you're making cheese and you're selling that high bucks. There's a man on the east coast milking 40 cows milking once a day six months a year. He's my idol. $13,000.00 a cow gross a year. Going to go to 80 cows. Think about that. Do you know what kind of cow it takes here to gross – tell them -- $3,000.00 a year. And you've been working six months a year and milking once a day. That's – I'll end there. It can be done.

Rhonda Boyles: Thank you. I think we're somewhat on schedule.

Craig Trytten: Did I do it all right?

Rhonda Boyles: You did good. I knew you could.

Craig Trytten: I didn't go over time?

Rhonda Boyles: No.

Craig Trytten: I'd like, you know, if Vicki or Digger have anything to say.

Rhonda Boyles: You're welcome to continue to participate and observe. I think we've used some pretty flexible inclusive rules here. So let's have some lunch and let's be back no later than 1:10. We'll start right at 1:10. And Joe is on the (indiscernible).

(Off record)

Rhonda Boyles: Okay. (Indiscernible). I know David's here. Larry (indiscernible) in the corner. And Rex will be back, I'm sure, just shortly. Okay, you have more stuff to read. There is a stapled two page document Mount McKinley Meat closure that was handed out. Much thanks to Frank and I guess that – because I'm working so hard and nobody has any time to even breathe hardly, I don't think you've seen this one, Larry. And certainly DNR staff hasn't. So Frank has to take full responsibility for this handout. Right, Frank?

Larry DeVilbiss: Which one's that?

Rhonda Boyles: Yep. And he's got a second one, one single sheet that starts with from 2003 and 2005 there have been 175 different inmate employees. Please find time maybe to read those before we go into our meeting next week, if you can. (Indiscernible) clarification, that pretty much speaks to itself. And I would expect that probably Larry could (indiscernible) questions.

Director DeVilbiss: It's just a follow-up from last week.

Rhonda Boyles: Thank you. We have a whole packet that Lora has given us. Mount McKinley Meat and Sausage closure impacts, potential interests in slaughter industry, Agriculture Revolving Loan Fund, more of what Candy had talked about this morning. And I think maybe when Ray talks about fixed assets, he'll ask you to pull out this document and whatever else he's given you. Okay. It's a review of the paperwork. And thank you for coming back at 1:10. And we're a little bit behind, but I think it's okay because we have some flexibility towards the end of the day. So, Joe, if you want to talk. Thank you very much again for talking about the privatization of Mat Maid. I think there were some questions noted on your agenda on informal discussion with committee members. That means ask Joe anything you want to ask him and he'll try to answer, right, my friend?

Joe Van Treeck: I'll do my best.

Rhonda Boyles: Thank you for milk and yogurt and all of that today too.

Joe Van Treeck: All right. I also passed around another document. We had a lively discussion this morning and it's a discussion that needs to be there. And I take my hat off to the folks that came in here, you know, already struggling trying to make ends meet and they're spending as much time listening to the deliberations here as we are going through them and giving up that opportunity to be at home trying to make things better. I think that's admirable on their part. And they've got a vested interest in – and we all understand that. But I think they also want to try help make things better.

I passed out to everybody – and you're going to wonder why I did it. But I passed out to everybody these documents. So special reports, the State of Alaska legislature and administration from Alaska Railroad. The reason I passed that out – if everybody will turn to the last page of that document. You know, I hate people that give you a handout and then read. But I'm going to give you a flavor for it because not everybody's got this. This is from the railroad. This is January 2005. Topic, privatization.

In our opinion, privatization would generate considerable business risk for citizens of Alaska, the Alaska owner state. If the railroad became a privately owned enterprise, it would have to pay taxes, it may not have access to federal grant money and would undoubtedly be forced to relinquish most of the 36,000 acres of land the railroad currently owns for exclusive right-of-ways, rail operations and lease revenue. It would not be able to sell tax-free bonds. In concert with one another, those are essential factors contributing to the railroad's ability to function profitably each year without having to go to the state for general fund subsidy.

In our opinion, a private owner could not continue the present level of service to all our customers and be profitable at the same time based solely on operational revenue. The economics simply do not quote, unquote pencil out. Failure of privatization would deplete assets and eventually force the state to take back a dysfunctional remnant of a former corporation, rebuild it at great cost and probably make it a ward of the state. Thereafter subsidized from the state's general fund.

So what did we just hear here? Let's do a brief comparison between the industry that worked trying to operate and what the railroad does. First of all, they're paying taxes and Mat Maid's paying taxes. You know, Mr. Eckert had some questions at the last meeting if you casted your financial statement against what you don't have to do what would it look like different. Well, that's a big one. And so the railroad says well, if we become privately owned, we'd have to pay taxes. Well, we're there. And one of the things we've even talked about even though we've had some strained moments as an industry, it's too bad that while we're trying to build this industry that when we do produce income at our end of the equation of this, you know, we're subject to both state and federal income tax. So we're not exempted from that.

It also goes on to say it may not have access to federal grant money. Well, we've talked about that a little bit this morning, didn't we, Chad? We don't either. Right? We don't have access to it either. They – the railroad's saying they do. And in fact, I think if we look at the railroad operating over the last, I'd say, 10 years, it's – they're probably clicking off between all sources of revenue between 50 and $100,000,000.00 every year to support their operations. This doesn't make them bad. It's the reality that in this world that we're operating in, microcosm that we're in, that's big to us, but small to everyone else, there's a certain level of infrastructure that's got to be in place in order for things to hopefully have a chance to succeed.

It also says that they'd have to give up 36,000 acres of land that they currently own for exclusive right-of-way, rail operations and lease revenue. I don't think it's a secret that the railroad states that really their passenger service activity and those things isn't where their – the bulk of their profitability comes from. It's from the lease rents on the property along the right-of-way. We're paying – you know, we're paying to maintain ours as well. So we're paying it out of daily operational income.

And finally it says that they wouldn't be able to sell tax-free bonds. Well, we haven't even had that discussion. You know, I guess what's important here is to contrast what we're looking and really what the opportunities are. When we stood at the annual meeting and made the comments, the pronouncement that we have fulfilled our obligation to the state, that's exactly what we meant. We'd at least recovered – we don't pay any debt. We don't pay any dividends either. But what we did is we did cost recovery on the asset that they have – we hard Candy talk about asset recovery, trying to maximize the value of what you own. We started out at a $3-1/2 million hole the day of – the day of the bankruptcy and it got to over $5,000,000.00 by the time all the dust was settled. And we recovered that to the point except for now in the late last year and early into this year we're slipping backwards on our equity. But the fact of the matter is, we've recovered the value of that at at least a book value basis. And we have been paying our own bills. We're not drawing away from the general fund in order to operate.

But all that's letting us do is maintain. And in that regard, whether it's the producer or us, maintenance in a highly capitalized business, you know – theirs is the cows. You know, ours is the – really is the building and the equipment that it takes to get the product out to the marketplace. There's only so much bubble gum and bailing wire you can use. So our position really was – it wasn't so much that we had a plan to take the thing private because that's not our role. What we were stating was that it's now time for new reinvestment. The time for reinvestment.

And under the state as the owner, the sole owner, we needed to step up to the plate and make that commitment or it needed to do something about selling or otherwise liquidating the business to capture the value as Chad talked about, to maximize taxpayer return. And so that was really the challenge, to bring it to a conclusion for that chapter that starts a brand new day for where are we going to go next. You know, maybe it was the right thing to do; maybe it wasn't the right thing to do. But one thing's for sure, we're in this room. And there's some kind of an attempt to see if – what the – under the microscope, what the whole industry can do, what the state's interest in it should be and hopefully with folks like Representative Neuman and Senator Green, you know, if there's – comes out of this a value chain that says this is an important industry for us to have long-term for people, and whatever those reasons are, that they're there to help carry the water to get the message through.

Because for 25 years, I'd submit to you that we've had no voice. And we've had a lot of people interested in agriculture, but we've really not had a voice, a common voice. And without a common voice in both elected offices, but, you know, in administration, but in the legislature as well. If you can't get a common voice, you're off the shoulder of the road. And we practice that with federal money and we see where that's gotten us, you know, because we can't coalesce an opinion on that. We can't afford to have that same kind of fractured voice go forward if we're going to try to track right here at home the support the industry needs.

So I'm not – I don't know what to tell you about privatization other than what I can tell you is this. That absent some other decision about the forward progress of this industry, we're all vulnerable. Maybe the producer is the one that's the first casualty. But it's not going to be limited. And it's a difficult thing for me to do because while I don't disagree that the niche model works. You read about it, all about the niche markets in all the ag magazines that you want to buy. The niche market's the new thing, whether you're in Vermont, or you're in California, to try to do niches.

We're in a niche market already. That's one of our problems. And that Mr. Wight, you had commented about, you know, discretionary income. Our pool of discretionary spenders is a percentage of our population, just like it is everywhere else. And the population's small, so that pool is small. Mr. Lintelman's proven that through a lot of hard work and sweat on the farm, vertically integrated with his family, basically his primary labor source, can make a living. But I'll tell you that he'd probably sit here and subscribe today that he's not getting rich either. And it would take diligence every day and every dollar they spend to stay above water too.

Since 1983, we watched the systematic dismantling of the things necessary for commercial agriculture to exist in the state. It's a fact. I don't know that we can reverse that. I don't know that we should reverse it. But if we're going to reverse it, we've got to know what the value is we're providing back to the marketplace collectively to have it happen. And I'll answer what questions I have. I kind of think more importantly coming out of this one when Mr. Nix is done with his presentation, it's not about where we've been. That's not of much value except not to make the same mistake. But it's where we're going to go.

And I've got – I've burnt 750 pieces of paper this weekend making copies of various things that I think might be of interest to this group about the future, not about the past, that we can look to to decide if we can imitate what other people are doing who are going through this very same discussion. Milk prices have been depressed now for about the last 14 months Outside. And it doesn't make a difference up here (indiscernible) New England or if you're in Hawaii, dairy producers are all in trouble. And the smaller they are, the more in trouble that they seem to be because there's a limit to their – you know, how they can capture volume.

So I brought some things that I can leave with the committee. I did it on purpose so that it would be available for, you know, our looking at things over the course of the next week before the next meeting, not because I've got a plan either, but it's the resources to help us decide if we're going to have a plan, what (indiscernible). So from there, I'll do my best to answer whatever question you might have in particular about Mat Maid.

Rhonda Boyles: Well, we shouldn't be asleep yet, Joe. We just got back from lunch. Questions? David.

David Wight: Just thinking about the privatization openly here, if I looked at Mat Maid right now, you don't carry any debt, so you don't have debt as part of your operating cost, is that correct?

Joe Van Treeck: That's correct.

David Wight: Because I'm struggling with how without some kind of significant change you could take your business and privatize it because somebody would have to buy it. Therefore, it would have debt and you're barely keeping your head above water. So if you add a debt load on top of what you got, I don't know how to make money at it.

Joe Van Treeck: Well, there's a significant changes both ways. One of them is you cut more costs than we've already cut. The other one is you raise revenue through either selling more of what you're already doing, or diversifying into things other than what you're currently capable of doing. Which is also going to require capital.

David Wight: Yeah.

Joe Van Treeck: We kind of looked at our business today and if you were going to borrow $5,000,000.00, just 100 percent, I went to Candy and this four was five. I went to Candy and I went in batted my eyelashes and she was mesmerized with me that day and I could walk away with a $5,000,000.00 deal at – if I had to give her an 8 percent rate of return though because I borrowed it, you know, no money done, just securing the assets, we figured we'd have to have almost $11,000,000.00 for your sales increase to cover the cost of that and make a reasonable rate of return on your investment, which is, you know.....

David Wight: Fifty-five, 60 percent increase in sales with your current margin.

Joe Van Treeck: Just as it sits today.

David Wight: And on top of that just to stay in business, you're going to have to do a bunch of things federally. And then if you were to – like I heard some of the producers say, I think they're working with 30-plus year old equipment and you are too. So if you rebuild it you've got another level of debt you have to service.

Joe Van Treeck: Right. That's right. Yeah, the business proposition isn't all that great if you don't have some other model that takes it to some place it's not been before. And if you look at Mat Maid over time, I mean, we've talked a little bit this morning about ice cream and various thing. I mean, we – the co-op made ice cream. In fact, it was one of the first products it made because it had cream – because cream had value in '30s. You know, we skimmed the cream and drank the skim and sold and eggs and cream to the co-op. I mean, that's kind of how the dairy industries worked.

By the time we rolled in at the bankruptcy, to try to hold onto what was left and keep it moving, that 20 years of time from 1964 until 1983, they'd exhausted that equipment. It was gone. It was really in need of repair and it was actually it needed to become more technologically efficient for output purposes. The technology behind that equipment that they had to freeze ice cream was 1930's model at that time. So we turned the business model around to what we could afford to do.

Remember now, while the ARLF made a number of protection of collateral loans or investments – they're not loans. I mean, they're booked as an investment into the business. We weren't getting tons of money just, you know, so we could have coffee breaks at 10:00 and 2:00. We got the bare minimum things. We had to have a roof repair, we had to have some plumbing things done. The bottling the equipment wasn't running right, so we got some new bottling, some fillers. So most of the stuff that we've done since the bankruptcy has been what we could make work with what we already had. So what we could get our arms around. We had cottage cheese vats, so we went back into the cottage cheese business for years during – I think probably for maybe at least five years, Darigold actually produced the cottage cheese Mat Maid sold up here because they quit making it up here. And sour cream. They packaged it in our name and we pulled it up here and we distributed it.

So we took that back and we made it, you know, small improvements to do that. We took the ice cream room and expanded it to go into yogurt production, which they hadn't done before. So we tried to make what we already had do more duty than what it was doing. You know, which – you know, ultimately in the end was the advent of the bottled – the water business is because you're really liquids in (indiscernible) packaging type business. And the equipment doesn't distinguish what it is.

Just in order to – as you said earlier, soak up the volume to become more and more efficient. Because the grocers do expect you to be a low cost provider. There is no – there isn't a free lunch. I'm not familiar – and you made the comment this morning in your market – I'm not familiar that anybody that's come and said bring it in at any price. And while there could be more value in some of these other things, where perception of value is different, you could take it in and (indiscernible) different price than that. They still have a benchmark to compare against because their business Outside they compare against. And it doesn't make any difference if you're contracting with the school district, or contracting with the military, or you're trying to sell on a resale/wholesale environment.

David Wight: Okay. Just to try and put something in perspective so I can think about it. You said, I think that it takes 11,000,000 – roughly $11,000,000.00 in incremental sales to debt service $5,000,000.00.

Joe Van Treeck: $5,000,000.00. And today – using 2005 as the snapshot.

David Wight: And so let me think with you for a minute. If you had to build a new smaller facility to look at the local only market, that's going to be some multiple of that five. So you either have to get a huge difference in price, or – but you haven't tried to figure that model out, what it takes yet, right? You looked at the privatization on volume (indiscernible).

Joe Van Treeck: On volume, that's right.

David Wight: You know that's one of the things we better kind of think about is (indiscernible).

Joe Van Treeck: You know from our perspective was when we took over, the plan was to do what we were doing and do more of it. It wasn't to shrink to some new model. It was to expand. The whole – this whole business here was about expansion. The mindset was expansion. We were going someplace else.

We were going to have – you guys were here. A lot of you were here longer than me. How many people were we going to have in Alaska during 1980 when people said, well, how many people are we going to have with big oil up here and pipelines? I think Anchorage was due to have two to 3,000,000 people.

The Point MacKenzie project – help me, Candy – the Point MacKenzie project was going to produce 5,000,000 pounds of milk a month alone. I wish Carol Lewis was here, because she could – you know, she could tie that up a little bit. But the fact of the matter is when you look at the tracts of land out there and the farms that could have gone on there at the maximum that they were kind of doing their model after, you know, we've yet to have 5,000,000 pounds of milk produced. But I'll surely tell you we've never sold 5,000,000 pounds of milk. So it was – so you've got try to overlay what we were trying to do based on the facts as we see them today. And I mean it's obvious that if you're going to build a new plant, if a new plant is really in the cards, I think you have to look at that situation that says can we scale back to something that's – can handle a half dozen small producers and a product that's perceived with high value today and we're satisfied with that here for us. Or do you take the model like the ASI fish plant that says no, we're going to get big and we'll make investment that direction because only if we've got a place to market milk will we ever have the ability to sell it. You know, I mean, there's really no in between.

We're in between now. We're stuck in the in between (indiscernible), we should be bigger; could go smaller. But you're only as good as guessing as the crystal ball works and the economy turns on a dime. Next year could be, you know, 1986, 1987 again. You know, and we're – what the business you should be in selling blue tarps because that's the only people that made any money in 1987. People selling blue tarps, packing up pickup trucks to go out of town.

So I think the spread between an investment to do something larger would – that maybe Northern Lights does but smaller than what we do probably 8 to $10,000,000.00 someplace. And then, you know, I don't know if that handles marketing or not. I think for what we're looking doing in our model, to continue to do what we do, to say, you know, we think there can be more and there should be more, and there's a place for a commodity as well as value added, it's probably 30 to 40,000,000. To capture the economies and opportunities to be making products that the market wants today and tomorrow, not the products that we made yesterday. Which is really what we do, we make the products that people wanted yesterday. We're not making the products people want tomorrow at our plant.

And that's where the obsolescence that I think Craig talks about, that's where it really hits. You know, we're not sitting in there not knowing if we can start up in the morning. That's really not our problem. We've got – we've been able to upgrade over the years and do things. And most of that, just like in their operation, (indiscernible) except in places where we've had to – where it didn't make sense to buy used.

But the building, the location, the fiscal plan itself is really where the obsolescence starts to show. You know, 40 years has taken their toll on the building itself. Mr. Neuman.

Mark Neuman: Yeah, Joe, the rest of the group, sorry, I'm late here.

Just a question on a few things that came up so I get caught up in my own mind of where we're at here. Because I know in the conversations that we've had earlier, and according to information that you've provided us earlier, is Mat Maid – a lot of folks buy Mat Maid because of the assumption that it's Alaskan. There's a certain brand name or a liking to the name.

And then you – something that just struck me recently is the fact that you said that we're trying to sell products – we're not in today's market; you're in yesterday's market. And I've seen the market grow in the Valley just in some more of the natural foods and farmer's type markets, go from one to $3,000,000.00 in the last couple years. And now we see it here in Anchorage with the farmer's market type of industry.

And I think those small niche industries are really a growth market in Alaska. I think it's probably nationwide to get into more natural, more organic. But you said in your – you stated earlier too that you haven't looked at what it would take to – or maybe you did – to try and sell in or to make into that market. Is there a reason why you haven't done that?

Joe Van Treeck: Well, what's driven that market mostly has been organic. And organic is a challenge for us here – for a lot things that want to do organic. More – as more science comes out some of the other things we talked about this morning, to coin the phrase natural versus organic, to try to attribute farm practices and (indiscernible) that product to the consumer. The Omega 3 business or other things along those lines. That's more recent and so actually no, we haven't. I don't believe that Mr. Lintelman has either.

We have stayed – tended to stay more commodity driven because that's where the volume is. In our business, if you can't do the volume, you can't afford to be in it. That's just in the scope. And so we don't do acidophilus milk, and we don't make Lactaid milk. Those are also niches for specific reasons people would want to buy those products. They either have a milk allergy and they can't stand the lactose or they want the bacteria of the probiotics.

So because the volume there, the take back from those, by the time you build a batch and go take that out and because we guaranty our sale, it's on consignment to the stores, we don't sell it and it stays there. It makes it difficult because we can't live with the shrinkage that comes back from that. So the short answer is no, we really haven't gone to things where there's low volumes at because it costs us too much money.

Mark Neuman: But there is a direct proportion between volume and price, you know, lower volume, higher price can demand that. But you haven't done a study or you haven't looked into that aspect is what you're saying? It's not so much as organic, but more natural or hormone-free type of product.

Joe Van Treeck: No, we – well, no, that's involving – the hormones are another evolving thing. You know, the federal government is death against talking trying to make comparisons against non-BST or non-hormone added milk and regular milk. In their opinion, there is no difference. But with the advent of the organic push, what we've seen now in the last, I'd say, mostly less than a year, but not much more than a year, we've seen how there's a bigger push against the non-hormone too. That's a fairly recent development. And while we've had discussions with local producers up here about the use of that, because there's no way to test, we've kind of been absent to advertise something that we couldn't back up. We've never asked for certifications.

Mark Neuman: So you've had recent discussions with the industry, the dairy industry in the State of Alaska or local producers as per what you could do, you know, if they could have a certain type of milk that you could market?

Joe Van Treeck: No, we haven't. No. No. This – you know, previous – this BST thing, that was about – I don't know – 12 years old, 12 years old. And so back in the vintage when that came out because consumers were demanding that that not be in the milk, we communicated with producers that we couldn't sell milk if that's what they were going to do and we needed to know. And they've all – basically, (indiscernible) well, we're not really going to use it. So – but we've also not gone out and tried to make it a marketing hook either. That's – the marketing hook is what's the more recent development.

Mark Neuman: I guess, just one more quick comment. I was just looking at the changing face of agriculture and reading a little bit of the support information from Tony Nakazawa and Larry. Our talks about in light of these challenges that the ag industry has in Alaska is more than 14 farmer's markets statewide are flourishing. Farm gate receipts, you know, greenhouses, it seems to be a really changing thing according to factual information that's provided to this group. So I'd maybe suggest we could look into that.

Paul Huppert: Well, you know, in the produce market, people at the Safeway stores and those – and I've kind of followed it. We marketed – it figures about three percent of their market. And I mean, and I realize you've got these farmer's markets stands, which there's a lot of them. But it's a very small percentage of what actually goes out to the consumer. You know, the biggest percentage goes through the supermarkets and the military commissaries is non-organic.

Rhonda Boyles: Hold on, guys. The wicked witch of the north again. I want to kind of try to contain the discussion to dairy, all right, that's why we're here, respectfully Representative Neuman. We will, as the Board of Agriculture and Conservation, we're going to be hopefully coming up with a direction in dairy from the wise council around this table so that we can somewhat set that aside on a monthly basis, at least for a percentage of our time, and start looking at the things that we're doing well in the state in agriculture, i.e., growing carrots and supporting farmer's markets.

I asked you this morning, Joe, if maybe you could talk a tiny bit about supply. And I know that it's a public meeting and I know that we all have to, as Mark Hamilton would say, gird your loins and be brave, and don't get defensive and emotional. But we need to have a candid look on your supply. We know you're bringing in milk from Outside. But can you forecast a bit, like 12 to 18, 24 months, what do you see from local milk and where is the supply going to come from, is it going to increase or decrease?

Joe Van Treeck: Well, after our discussion this morning, I think that's kind of been answered unless there's some kind of an accelerated methodology to pay for milk above, you know, whatever the commercial value is it can be sold for from other sources, whether it would be – probably not loans because it's not the loan issue, it's just general revenue.

Historically, the reason for Point MacKenzie to begin with was because the Matanuska Cooperative Association was concerned because they were losing their milk supply in the Valley because of oil production and cheaper land that was available in the Valley. I mean, if you boil it right down, by the time I rolled in here in 1984 I think there was only about – of the Colony farms, I don't think there was a dozen left that were in operation. So, you know, it was problematic then. And probably since the early '70s the co-op had found itself in the same situation.

The military moved away from recombined milk under contract. They wanted fresh milk. And when that happened, they – the co-op didn't have enough milk supply then either and they shipped milk up from the Northwest in a similar fashion to what we're doing today. So sourcing milk and trying to balance milk in this marketplace has been a problem, a long time problem. During the days where they could do recombined milk, it's easy because you just buy truckloads of powder and store it in the warehouse and you reconstitute it when you need it.

By 1986 we were producing over 3,000,000 pounds of milk a month in the state – or at Point MacKenzie actually. 3.2 million pounds I think was the peak month for our production milk that we – that Mat Maid bought, notwithstanding what was going on up north in Delta Junction. By 1989, we were importing milk again. And Candy talked a little bit about that because that's in the era where the Point MacKenzie and Delta foreclosures were in place and people were going out of business.

So we've had a seesaw in milk production. We do source from the Northwest. We source – we've got two or three different places we can go for that milk. It comes in bulk tanks. It today represents about – it's around 40 percent, 38 to 40 percent of our milk is local; the other 60 to 62 percent is all that's left of the local production. We've been as low as -- in that 20 year period now we've been as low as about 20 percent. So we're in a cycle that we've been in before.

Wes Eckert: So how much milk locally do you get a day? 25,000 did you say the other day?

Joe Van Treeck: It's a little less than 25,000. It's less – we're bringing in – we're actually – it was even less than I thought it was because the milk truck driver was figuring he was going to be able to drop one of those tanks. And that tank – those tanks hold – about 20,000 pounds a day.

Wes Eckert: 20,000 pounds a day.

David Wight: Isn't that about a half a million pounds a month?

Joe Van Treeck: Yeah, it would be a little more than that. Yeah.

Rhonda Boyles: How many producers are you buying from?

Joe Van Treeck: Well, count – if we count Craig's son as an independent producer on the same farm, it's six, I think. Five actual localities with two producers on one farm. And Northern Lights Dairy sources milk from us. Basically, we source milk for our needs in a deficit situation. We've got milk moving anyway. He's in a deficit situation because he's lost producers in his marketplace as well. And so it's caused him to have to come to us to source milk. He's asked us to sell him only local milk. We've obliged him to do that. And so we discriminate against ourself with that.

Wes Eckert: You receive milk six, seven days a week then at 20,000 pounds a day?

Joe Van Treeck: We receive milk from local producers every other day basis.

Wes Eckert: Every other day?

Joe Van Treeck: Every other day.

Wes Eckert: 20,000 pounds every other day?

Joe Van Treeck: 40,000 pounds every other day.

Wes Eckert: Oh, okay.

Joe Van Treeck: 20,000 pounds a day, yeah. We're open to receive milk seven days a week. We don't receive it seven days a week.

Wes Eckert: How many days a week are you processing fluid milk?

Joe Van Treeck: We process fluid milk – (indiscernible) we process it four days a week, but really process some out all five days. But we do a lot of water bottling on one of those days. So it's a day that we're doing the water, which is mostly in gallons, we're doing small projects, chocolate milk, culture stuff.

Wes Eckert: But gallons of fluid for example.

Joe Van Treeck: Gallons of fluid milk really four days a week.

Wes Eckert: Four days a week.

Mark Neuman: And what was the percentage of local?

Joe Van Treeck: Between 38 and 40 percent today is what we're buying, what we're procuring. The milk that comes in from the Northwest comes up on the ships. It comes up on ship days. Our primary source for that is located within 10 miles of port. So it's about – the milk that we get up here is about 4-1/2 days cow to us on the ship. And we run our operation around the ships so – because we need to move the milk once it gets to town. So we operate Sunday through Thursday and Friday and Saturday are dark days for production.

Mark Neuman: Joe, if we're getting 38 to 40 percent of Mat Maid's milk is local, what can we do again looking at Rhonda's question of what can we do to try and increase that market share? You know, we've had some other farmers have been dropping out. So we need to bring more blood in. We need to bring more new blood in and that seems to be difficult to do. Obviously, it takes a huge investment to do that. Craig Trytten's son is trying to get into it. But there's been a reduction of the price that he's getting as a new independent farmer compared to what the traditional pricing range was. And they just claim they're not going to be able to make it now because of their costs of fuel and taxes and everything are going up, which is understandable. What in your mind do you think we can do to try and increase that? What can we do to help our farmers out? What can we do to bring more farmers in here? What can we do to make the market, the climate better in your opinion?

Joe Van Treeck: You know, I wish I knew the answer to that. Because if we did, we probably wouldn't have to be in here talking about it. The fact of the matter is, the economics here are tough on both ends of the spectrum. I mean, the economics are tough. They're tough on the processor, they're tough for the producer. And if it's cost of hundred weight for milk that's – and that's why I was talking about these other documents I brought. You know, what the other states, they've done similar to what happened that the legislature did by appropriating the $500,000,000.00 for support pricing for producers.

And there's – there are things that are being done other places where state governments are saying, you know, this is a vital industry in our state. We value this industry, the kind of jobs it produces and the emotional ties to the land and the rest of that. They've picked up where the private sector isn't willing to go. But beyond that, I can't answer that because it's – I really don't understand their business. That's not where I come from. I am – like Craig says, I am a suit. Came from the city, been in the city, lived in the city, work in the city, so I don't understand the problems at the farm, the things they challenge. I can appreciate them, but I don't understand all their business dynamics. So.....

Director DeVilbiss: Did you include the Hawaii situation?

Joe Van Treeck: Yeah, actually, I got some outputs of that too from this – yeah, I do.

Rhonda Boyles: We'll get to that after we hear from Ray, if – any more questions for Joe? Thank you, Joe. Ray, you're on. Thank you. And I think Ray's going to want to talk about – right, Ray?

Ray Nix: Yep, that's what I'm going to talk about. For those you that haven't met me, I'm Ray Nix. I'm the Division of Agriculture in Palmer. And for those that weren't here the other day, my presentation is going to be fairly brief today. What I'm here to do today is I'm going to tell you a little bit about the asset inventory of the ARLF and to actually touch base with you on some of the questions that arose at the last meeting with regard to some statistics regarding Mt. McKinley Meat and Sausage.

With regard to assets and I heard a lot of talk about debt load today and I wanted to talk a little bit about the assets of the ARLF. And I came on board in 2000. One of the primary purposes that I was hired was to dispose of the assets. What had happened – if you look at this consolidated asset inventory sheet that's provided in your package, that sheet was full top to bottom when I came on board with the Division of Agriculture. There was nine other properties that are not listed here that we've sold since I came on board at Point Mac alone. And that was to the tune of just a little over $5,000.000.00.

And so when I came on board, the focus of my task was to eliminate or dispose of these properties and get them back into private hands. What had happened as a result of the mental health lawsuit, we were prohibited from selling lands at Point MacKenzie. And therefore, what happened to that project was the fields grew up and the buildings got dilapidated and there was a lot of vandalism and stuff at Point Mac. And so what you see here today, the picture that you see on this asset report today is far different than it was just as much as five years ago.

One of the things that I – the reason I bring that to light is because we talked about debt load. When we sold those properties back in 2000 and 2001, the appraised values were $450.00 an acre. That's what we were getting for the property. Today those parcels, with or without improvements, are still selling between 1,500 and $2,000.00 an acre. And so the debt load has increased on the farmer just to purchase the land. And I think that's significant to point out here. $450.00 an acre versus the size $2,000.00 an acre today so that's the only reason I bring that to light.

I'm not going to go through everything that the division or the ARLF owns. What I would tell you today is we have exclusive of Mat Maid, we have about $3,000,000.00 in inventory and that does include Mt. McKinley Meat and Sausage. A couple of things just for your information on this consolidated inventory report is there's a couple categories. The only property that is free to go right now to get rid of some property down in Kenai. It's non-agricultural in nature, has very little value and it's mostly wet. So, you know – and that hasn't been our highest priority at the Division of Ag to sell that, I'll just be honest with you.

We have some assets such as Mt. McKinley Meat and how it's operated. We're going to talk a little bit about that. And also the feed mill located in downtown Palmer that is utilized by Matanuska Maid for its blow mold facility.

We have some long-term leases that Candy spoke about one. We have one in Delta. It's former Mertz (ph) Dairy for those that are – know a little bit about the history. It's currently leased and I believe it has – as Candy indicated has a purchase option by 2011. I think it was just renewed in 2002 or 2003. So we do have that one dairy and it's got a pretty high value on it, but it's a leased operation. I don't give those numbers out. Those numbers are provided at the committee.

So we have – you know, here's the deal with the assets. We've got assets from Umnak Island out on the Aleutian Chain all the way to Interior Alaska. And that's what we've been doing is managing those assets. And it's a big task. It's a big task to manage all these assets that were really not meant for the ARLF to be the landlord. That's just not what the ARLF or the Division of Agriculture was designed for and that's what we've become.

So that's all I have about the asset inventory. Unless someone has some questions on that, I'm going to just move ahead with the other information that's in your packet. And I might go – I'm going to talk a little bit about the – I'll just start with the chart; I'll just go with the chart. The first chart in my packet – I hope this is the same as yours – is the Mt. McKinley Meat and Sausage slaughter statistics. It's by fiscal year and type. And what I can let you know is you may have got part of this chart last week. This has got the new numbers, including fiscal year '07 as of September 30th of this year. What you can see from the first chart is that the slaughter numbers for dairy cows – and this is the only reason I bring this to your attention is because the number for slaughter statistics for dairy cows and beef cattle is not much difference. I mean, you know, it's a significant amount of beef cattle also going through here.

And I think that's important. And when – and I don't have his report available with me up, but the numbers provided by the director about the beef reports also show an increase – show an increase in the cattle. And I think that's important to note here too. The dairy culls in 2006 has increased since 2005. It is on the upswing. And I just think that's remarkable to note and to point that out, to bring that to your attention.

And so as far as slaughter goes, you can see overall the numbers went down in 2006. But I think that's – has a big – the biggest factor in that is the amount of swine that is brought into the state because there is a lot of Canadian swine that was brought in the state in previous years that the number is not as high – it was not as high in 2006.

Mark Neuman: Ray, in your opinion, there's always been at least a few years, the last few years, a lot of talk about closing Mt. McKinley Meat and Sausage. I feel – and maybe I want to get your opinion on this – that if we're looking at a decrease in slaughter statistics to the slaughterhouse, the kill floor, it seems like the state has been somewhat threatening to close this plant for several years, quite a few years now. Do you suppose it's had a huge impact of people wanting to get into the industry? Or I mean, it's had to have a negative impact. How do you relate – how do you correlate to the numbers that we're seeing here?

Ray Nix: What I can tell you is that if I was in the meat business, what I would be hesitant of is spending a lot of money, investing a lot of money not knowing what the future for the Mt. McKinley Meat and Sausage plant is. That would weigh on my mind in part of my decision-making process, yes.

Mark Neuman: So in other words, it's going to be very difficult for us to grow ag in the state if we're continually threatening to close this plant? Because I've had that conversation with folks that say they can't get to use the kill floor up in North Pole and stuff, that it's pretty much full. So this is about the only one available.

Ray Nix: What I would say is that based on the numbers that are available, the industry is still increasing despite that. I'm not saying that it doesn't have a negative impact, because it most likely does have an impact. But I can say despite that fact, people are finding alternatives to other than Mt. McKinley Meat and Sausage. Mt. McKinley Meat and Sausage numbers can go down, but that's not keeping the industry from moving up. And I'm not saying it's at leaps and bounds, but it is moving in a positive direction.

Mark Neuman: That's a good thing.

David Wight: So I guess I didn't know that or didn't listen carefully enough earlier. What percentage of the slaughtering, kill floor, or whatever you want to call it, does Mt. McKinley do versus what's in the state?

Ray Nix: And I don't have that number available.

David Wight: Do you have any feel for is it half, a third, two-thirds or.....

Ray Nix: I would ask Frank if Frank has any information on that with – he's the one that runs the Mt. McKinley Meat and Sausage plant. He might have an idea on that.

Unidentified Speaker: What was the question?

David Wight: What percentage of the market for slaughter product in the state does Mt. McKinley represent?

Unidentified Speaker: Compared to the little plant in Delta and the respective kill floor in Fairbanks?

David Wight: I don't know what else is here. I'm.....

Unidentified Speaker: There's a kill floor in North Pole that's inspected. No processor (indiscernible). There's a small plant in Delta Junction that has USDA inspection on the kill floors and on the processing floor. Not knowing the exact numbers, Delta does about six a week. And I don't know exactly how many they do in Fairbanks. I just know what meat inspectors tell me that the amount we kill in a day they'd be hard-pressed to process in a week. So – but I don't know the exact numbers that he does do.

David Wight: So this is the meat processing.....

Unidentified Speaker: This is the primary.

David Wight: .....facility in the state.

Unidentified Speaker: Yes. This is the primary (indiscernible) in the state. We do animals for Homer.

David Wight: That's what I was after.

Unidentified Speaker: From North Pole, Delta.

Paul Huppert: You know, I think one of the big things that you miss in this, is not mentioned, is 75 percent of what goes through here goes to corrections. And you wouldn't get in that market without that inspected slaughter facility. And that's a tough one. It's not only the slaughterhouse, it's the market that would go with it if you close it.

Mark Neuman: And just another part of that, maybe Ray or Frank, to add on to that question is again how much of Mt. McKinley Meat and Sausage is that public, because the other two slaughterhouses do a lot of private or their own product. And so we're talking about a slaughterhouse that's available to the public at large, they probably do upwards of – I don't know, 75 percent of all the meat that's done in the state goes through there. Does that number sound right to you, somewhere, 75, 80 percent of what the public has available goes through that?

Ray Nix: I wouldn't think that the number would be near that nigh. I think that the number would be significantly less. I don't have the number available to me. What I can get for you is the amount of animals that were in Alaska in 2006 and we can compare that to the amount that went through Mt. McKinley Meat and Sausage and arrive at that percentage. I'd rather give you that than to make a guess. I would rather not.....

Mark Neuman: Could you break it down into what is available for the public? I mean, a lot of those – Delta processing plants in North Pole and Fairbanks, don't they do a lot of their own private meat?

Ray Nix: They do. But these are two processing facilities, slaughter facilities available in the Interior, one in Fairbanks and one in Delta. Any other questions about the slaughter stats? I'm moving on. And the next chart is just

– it's the same thing. It's all the animals that Mt. McKinley Meat and Sausage and slaughter. But what's important is to note that direct contribution back to the dairy industry.

So what we've done is we've separated out the dairy culls that were purchased and we are now tracking that so that we can get a better handle on the significant impact that dairy cull does have back to the industry. And as you can see in FY '05, the purchased dairy cows were 202 animals purchased. In 2006, it's jumped 272. One of the things I want to make sure you understand though that in any given year there could be significant reasons for jumps or declines. And one of those is that a dairy went out of business. In 2005, we did have a dairy out on Tract 17 go down. And I believe it was 2002 another one. And so those do have an impact on the numbers that are able to be counted and reflected here in the.....

Wes Eckert: What's the variation, Ray, in 2007? What – is that year to date or is that....

Ray Nix: That is, correct. Year to date as of September 30th these are the numbers.

Wes Eckert: So that just.....

Ray Nix: Fiscal year, yes. Fiscal year to date. Three months. And just what I – I just want to bring something to your attention. You'll see a category called other because Mt. McKinley Meat and Sausage does slaughter a lot of other animals other than just beef and swine. And so that could include reindeer, it could include yak, it could include sheep, goats, just all those other animals. But when you add all those together, they are very insignificant compared to the cattle and compared to the swine.

Gail Phillips: Ray, does it include any birds?

Ray Nix: No, they do not slaughter birds. And that's it for the chart. I did want to touch base on inventory a little bit. There was some talk about inventory last time. And I went back and I pulled the numbers. When I'm – right now I'm talking about meat product inventory. I wanted to make it clear. There was some questions about the significance and the dollar value of the asset because maybe your inventory increased. And what I've gone back and done and as of July 1st of 2004, there was an inventory of meat product inventory at Mt. McKinley Meat and Sausage of about 143,875. And at the end of that year, it was 142,114. So that fiscal year, it really didn't change. It didn't change that much. I mean, that's what – that was the point that I was trying to make the other day.

It may change significantly throughout the year, but they run an inventory based on their needs out to a certain date. And so therefore the inventory over the course of a year really doesn't change. And as of July 2006, once again it went from 142,114 to 144 so it was a couple thousand dollars. So that as far as that affecting the value of Mt. McKinley Meat and Sausage in the last two years, the value of the inventory has only increased $2,000.00 so – of meat product in the period. So I thought that was important that the committee know.

Mark Neuman: What's the correlation? What am I supposed to read out of those numbers? What am I supposed to get out of that?

Ray Nix: There was some inference that maybe Mt. McKinley Meat and Sausage might need to take into account the inventory of meat product to determine what its value was on a regular basis. We use a cash basis accounting method instead of an accrual basis, so that information is not included in the value of Mt. McKinley Meat and Sausage when it was presented. And so the purpose of giving you those numbers is to let you know that even if it was done the other way, right now at a point in time for those two fiscal years, the change is only $2,000.00 from the meat product inventory. So it wouldn't have been that significant. And so that's the reason that that information is being brought to you.

A couple of other information pieces that were requested that I've provided. If you look at the last couple pages of your little packet, you'll see some financial statements. There's two, two sheets. One for fiscal year ended June 30th, 2005 and also for fiscal year 2006. A couple of things that I wanted to point out here was the loss. I wanted to reiterate that these numbers are the only reconciled numbers that we have for Mt. McKinley Meat and Sausage since we took over operations. They're hard numbers. They're there. Now, this is the reality. This is the picture right here.

And in FY '05 we lost $142,000.00 and in FY '06 we lost $195,000.00 at Mt. McKinley Meat and Sausage. And those are numbers that this committee needs to know when they're going through their evaluation process. And I just wanted to make sure they had those hard numbers.

David Wight: I think last week when we talked about it, a large part of the sales go to Department of Corrections. And that goes at less than commercial replacement value, if you had to buy that same beef for corrections somewhere else.

Ray Nix: That's one of the reasons I provided these because I wanted to address that. I don't know that that's true information. In fact, I don't believe that's true at all. I believe what we do is we have – and there's some columns on here that you'll be able to look at, some publications so you'll be able to see. We have box meat sales that we sell to private institutions that we track. And we have box meat sales that we sell to state institutions, not necessarily just corrections. I want to make that point clear. We don't track it just by corrections. We do it by state institutions and by private sector. And do it by boxed meat and by processed meat.

Unfortunately, boxed meat – boxed meat comes in and sometimes there's value added to that. In other words, we could get in a case of a baron of beef and convert that, process, add some value to that, convert it to stew meat, and sell it. We do not track that process so therefore I can't tell you how many pounds of boxed meat had value added and what it was sold for and what it was converted to. The inventory tracking of that would just be horrendous to try to keep up with. But what I can tell you that in 2005, the boxed meat institutional sales, the boxed meat institutional sales were $565,000.00. That's pass-through.

That means that that box of meat came into Mt. McKinley Meat and

Sausage, went to a state institution and they didn't have to open the box (indiscernible).

Wes Eckert: And that came from the Lower 48?

Ray Nix: That – what I can say is originally, yes, it came from the Lower 48. What we do – and Frank, please correct me if I'm wrong – we order from local vendors, wholesalers to keep them in the loop, to keep them involved in that process. The other thing that I want to say – that I want to address is we do not undersell or reduce our price for DOC. Frank – all the meat that's sold at Mt. McKinley Meat and Sausage is based on a competitive basis. I mean – and he can tell you a little bit more about his pricing and his markups. But it's not given cheaper just because it's to corrections. It's not to undercut someone else. Frank's there to try to keep the plant open for the industry and so he's not there just trying to give corrections a deal. And so as far as the pricing goes, the competitive pricing – I don't know if Frank prepared anything on that. But I know he did do some research with some other food service providers on costs.

David Wight: Where did I come away with that impression last week?

Ray Nix: I don't know. I gathered that last meeting and that's one of the reasons I provided this information.

David Wight: But I don't know how to get to that answer from the numbers that are here.

Ray Nix: You can't get it from here, but I believe there was a request to do some research on the contract with the state. And I don't know if Frank got any written paperwork or if you just (indiscernible).

Frank Huffman: Well, I've got the price list from the contractor. It was late getting here. I got it last night. And I also have a copy of the state contract that was sent out to different vendors to bid on for this and I got it from the Department of Corrections through general services last night out of Juneau. So I haven't got anything prepared with these documents to compare with Mt. McKinley's price list that I have here.

Now at this time, looking at this price list and looking at the one for the contractor, we're actually charging considerably more money than this contractor is for the same product for the state. These are based on one unit, so you have to sit down and break it all out and these are priced per pound. But these are based in units.

Mac Carter: But didn't, Frank, you say that the way that contract's designed there are a lot of things that are added in, you can add this, and this and this and this, depending on how it goes down the chain. And by the time you end up with it, it ends up being.....

Frank Huffman: It may not be cheaper.

Mac Carter: It may not be cheaper, yeah.

Frank Huffman: It may not be cheaper.

Wes Eckert: Ray, to answer this question on this 2006 revenue and expense sheet, you show $501,000.00 in processed institutional sales. Would that be Department of Corrections?

Ray Nix: Not necessarily, but it would include Department of Corrections.

Wes Eckert: And then you have 542,000 in boxed. And that's a pass-through thing?

Ray Nix: That is correct.

Wes Eckert: Then you have 198,000 of processed private sector. Again, that would be butchered meat within the plant that you would sell?

Ray Nix: That's correct.

Wes Eckert: And then you have boxed, private. Again, that would be a pass-through kind of a thing.

Ray Nix: That's correct.

Wes Eckert: Okay. So Department of Corrections would be in this 501,000 of meat that you slaughtered and Department of Corrections you say is included in that number.

Ray Nix: That is correct. What we have, to my recollection – Frank might be able to give you a closer number – a very small portion that we have Alaska Youth Academy and some other Veteran's Affairs. We have some other organizations that actually purchase.

Wes Eckert: But Department of Corrections would be the lion's share?

Ray Nix: They would be the lion's share, absolutely.

Unidentified Speaker: (Indiscernible) percent.

Ray Nix: Seventy-three percent of all sales are to DOC.

Wes Eckert: Okay. Thank you.

Ray Nix: And so the only other thing that I think that is remarkable about these financial statements that I wanted to point out was the animal purchases, the amount of money that was actually spent for direct animal purchases from the producers. And those numbers are totaled – you know, for 2006 it was $267,000.00 directly to the producers, Alaska Grown livestock. And I think that's important for you to know.

Unidentified Speaker: So that's what you paid for a whole variety of all the animals.

Ray Nix: All the animal purchases that – live animal purchases at Mt. McKinley Meat and Sausage, yes.

Mark Neuman: Ray, just (indiscernible) going back to Mr. Wight's question, is – went back to a lot of this product goes through to DOC. But if I'm correct in numbers, I believe you pay about 60 cents a pound for culled cows, which is the largest that you put through.

Ray Nix: I would have to defer to Frank. I don't know what we pay.

Frank Huffman: It probably averages over the year is about 45. Right now it's about 45.

Mark Neuman: And you get 50 percent out of those cows, so you're paying 90 cents to $1.00 – or corrections is actually paying 90 cents (indiscernible) prisoners. They're getting their meat, the hamburger for less than $1.00 a pound.

Frank Huffman: I don't believe that's true. We're paying carcass weight – you figure on average cow, we're paying 45 cents on a live animal. It's costing us $1.04 for a carcass to hang (indiscernible). That's on a dairy – on a cull cow. Then we have to take the bones out of it and we take the loss there when the bones go. And like grinding it into ground beef, for instance. So we're getting about 36 percent of that live animal, from that live animal. Thirty-six percent is actually the ground beef (indiscernible). So we're selling ground beef like to corrections $1.90 a pound.

Mark Neuman: And that's – you're not – are you – how much profit do you make at $1.90?

Frank Huffman: We figure we're putting about 30 percent on it.

David Wight: And the box hamburger would be the same price?

Frank Huffman: About the same price. Hamburger patties are like 5 cents a pound more.

David Wight: What's an average cow weigh?

Frank Huffman: Probably 1,200 pounds. We get a few in that are really big and then we get some about 900 pounds. But probably around 12, about 1,200 pounds.

David Wight: $600.00 a cow?

Frank Huffman: About 500. About 500. The price fluctuates on the cattle. But you don't understand – you know, in how we buy the cattle or buying the cow, the cattle we're paying on live weight, but we're also looking at (indiscernible) animal. Some of the cows will come in and the carcass yield will only be like 40 percent. Some of the cows will come in; the yield will be 53 percent. Well, a cow that yields 53 percent has got – is going to have theoretically more meat coming off that carcass than the cow (indiscernible) 43 percent. Therefore, the cow that's up in the yielding in the high – in the 50's commands more dollars that the one's that's down in the 40's. So that cow – they receive more money for that cow. Even though the cow may weigh the same, it may – both of them may come in and weigh 1,200 pounds. Okay. But the carcass may weigh 100 pounds more than the other cow for one reason or another. They're going to get a few dollars for that cow than they are for the other cow.

David Wight: Oh, so you work it on a yield basis as compared to a gross weight basis.

Frank Huffman: Right. The thing is, everything is paid on the live weight of the animal.

David Wight: And there's roughly a 10 or 20 percent swing on yield.

Frank Huffman: There could be.

David Wight: Net yield.

Frank Huffman: There could be.

David Wight: Because you were saying 42 versus 53, that's about a 20 percent swing. That's a big difference.

Unidentified Speaker: It depends what they had for breakfast.

Frank Huffman: See, some – at one time we had producers that thought they were making money. The cows would come into us – and I call them being tanked up. Okay, because we're paying on live weight. Well, it didn't take me very long to look at this when I look at the carcasses and I see the carcass is yielding 38 percent and I'm saying wait a minute, what's going on here. So what I did with one producer that continuously did this, I actually held the cows for 24 hours in a single pen, six cows. Okay. We exited the cows and then I weighed the manure that was in the pen. There was 700 pounds manure left in it in 24 hours. So now I go back and I start looking at the yields on these carcasses. I mean, it was costing us – if we were paying 40 cents a pound or 45 cents a pound, we were paying, you know, $1.20, $1.25 for that carcass.

Ray Nix: Any other questions?

Ernie Hall: Before you quit, how do you determine the price you pay per pound?

Frank Huffman: Okay, I'm looking at the (indiscernible). And then we're adding (indiscernible) to it. Well, right now it's 5 cents a pound.

Ernie Hall: Yeah, yeah.

Frank Huffman: A few years ago, we were looking – we were paying like 10 cents shipping. And then we went back and reinvestigated that and we determined that 5 cents is where the direction we wanted to go. So we're paying – if a cow is 50 cents say in St. Paul then I'm paying 55 cents for a like item, a cow like item, like yield.

Unidentified Speaker: But at this location (indiscernible).Okay.

Mac Carter: Frank, is there a dollar figure on that contract?

Frank Huffman: There's – with the price list, their price list.

Mac Carter: Okay. But I mean do they have to bid a overall cost for a year, three years?

Frank Huffman: It's a year, one year contract, renewable – a renewable one year contract.

Mac Carter: So it's just not a set figure. It's just a price and then you have add-ons that can be added on.

Frank Huffman: And they can do it as a line – like a line item bid. And this company, not only did they get the meat, they got all the other food products too at the same time.

David Wight: I'm not an accountant; I'm an engineer, so I need a little help. If I'm looking at this last page, cash pages, and it says boxed institutional meats (indiscernible), you know, 542,000. Boxed meat purchases, which is down there on another line is 759,000.

Ray Nix: Yes. What the difference is, is because some of the boxed meat that was purchased – that between 759 and 542 was additionally processed and changed. It changed shape. In other words, it didn't go pass-through. Something – that meat was turned into stew meat, or turned into another product and then sold as a processed institutional meat sale. That's the reason.

David Wight: So you – I need to take the 542 and 198 and put them together? Yeah, the 542 is boxed meat sales and 198 is processed private sector sales. But I still don't get to 759.

Ray Nix: Unfortunately, all that you can get to because you – because there's some apples and oranges there. You can't – you just can't add to because we don't track that boxed meat, which was converted. Because what you would have is processed institutional meat sales includes not only boxed meat that has been processed. It also includes live animal purchases, which has been processed and sold because there's no tracking mechanism within the plant. Remember, when we took this over we were – it was in a short-term basis. What the plan was to move it and sell it into the private industry. So you would take a whole new inventory control system and tracking mechanism to keep track of that meat from the shape that it changes from the time it hits the plant until the time it goes out the door. So I can't give you an exact number of how much of that meat was boxed meat originally and how much it sold for. I don't have that number.

David Wight: Okay. I guess my conclusion then is, is that we're not able to tell where the value added processes are in this thing because it's so mixed up. We just know what the bottom line is.

Ray Nix: That's correct. That's correct. There's no individual tracking.

David Wight: And all we know is it – the state lost $195,000.00 on the operation last year.

Ray Nix: Yeah. And what I can show you – I mean, this is an abbreviated financial statement. But we do have the – and I didn't provide it here. I didn't want to get into the detail. We can tell you how much we spent for electricity. We can show you where all those expenditures were. I just didn't provide them here.

David Wight: No, that's all right.

Ray Nix: I mean, there's a detail. So there is a tracking, but as far as knowing how much boxed meat you purchased and exactly how much profit you made off it, I can't tell you because it's changed shape. I can't do it.

David Wight: Okay.

Ray Nix: That's all I've got unless you have any more questions.

Mac Carter: The commodities are what?

Ray Nix: The commodities under this would be – there's some additional food supplies that are used in the processing, it could be spices; it could be any number of things. I believe also there is cleaning supplies under that category also, Frank, I believe. And that's (indiscernible).

Ken Sherwood: Do you have any projections for what you're going to lose in the next couple years?

Ray Nix: The only real data that I have are these two sheets and they're – and a lot of it just depends on the energy, rising energy costs. I mean, as with the producers, everything that's costing the producers more money to operate is costing us too. So the short answer is, no. I could use these two fiscal years and make a prediction, but.....

Ken Sherwood: Is there anything significant that's contributing to the loss that could be eliminated?

Ray Nix: Could you run more efficiently? I think about the only way.....

Ken Sherwood: Not necessarily run more efficiently. Are you selling something that maybe you shouldn't be selling, are you doing something maybe you shouldn't be doing?

Ray Nix: We've looked at that before and we had a list of – in our review and recommendation report, we had a list of things. I believe we went through that list of things and that's why we improved, if you will. Are there more things? I haven't gone back and done another review of the plant or had anybody go through the plant. So the short answer is, is I don't know that – I don't know the answer to your question.

Ken Sherwood: Are there any glaring inefficiencies?

Ray Nix: The only thing that I can see from my perspective looking at it from the outside is that it costs a lot of money – and I know there's a value in the inmates, don't get me wrong. You know, cheap labor is cheap labor. But there's a cost associated with cheap labor. One of the things that Frank did in his report, he talked about 175 inmates over the course of the last couple – or several years. Those all got to be trained. That's a cost. And to transport those inmates is a cost. And those are things that unless you know where the numbers are in here, you don't see those numbers. So when you look at the fuel bills and you look at the vehicles and the time spent transporting those prisoners, it's a significant cost.

Ken Sherwood: You mentioned that somebody else was looking at getting a USDA approved slaughter facility. What does it cost and how involved is it to get a USDA stamp of approval?

Ray Nix: Well, Frank would be able to tell you better than that. I don't know that I said that. But Frank will be able to answer that question.

Frank Huffman: A lot. A lot of money. We do things at the meat plant that in the private sector is not realized. Costs that we don't have. We don't pay product liability insurance. We don't pay workmen's comp insurance. We're not bonded to buy cattle, which is a federal law, to be bonded. There are some expenses out there that we don't encompass that somebody in the private sector is going to have to pay if they take that plant. And it's a lot of money, a lot of money.

Wes Eckert: If somebody private would take it, could they use convict labor and.....

Frank Huffman: There is a mechanism with the state. It's called Alaska Correctional Industries. It's called a joint venture with corrections. Now, when you do that, it's my understanding we've had one industry that has touched into that and that's down in Juneau in a laundry. It's my understanding that now the labor cost goes up because you're using inmates for total profit, for profit for the private sector. You're paying them minimum wage. Okay, they're – they don't receive that amount of money; they receive one-third of that money. One-third of that money goes back to corrections to have them incarcerated and then one-third of the money is their gate money when they are released. I don't know what that encompasses.

Wes Eckert: So anyway you slice, if it was private, cost of labor for that operation would increase significantly.

Frank Huffman: Absolutely. A meat cutter in Palmer, we checked on this, the Palmer Carrs, a lead meat cutter is making 23 an hour. Okay. How much is that – you know, our cost per week for these 10 inmates is actually cheaper than the one meat cutter over at Carrs. So when you start looking at taking this and maybe putting it in the private sector, how many employees is it going to take to run the plant as it exists. Okay. On the kill floor, it's going to take at least five people. You can't run it with one or two because you have rules under the USDA with cross-contaminations of positions. So it's going to take at least five on the kill floor. How much you going to pay those five people? You have to have a lead man and probably another guy and then, you know, some – so you're looking there – minimum wage there, you're looking at 40 bucks an hour for two, for two guys. Then you got three more. That's probably going to cost you another $60.00 an hour for those three.

So then now we got to go to the process, okay. Are we going to utilize the facility as it was designed. Are we going to make sausage, are we going to smoke hams, et cetera, et cetera. And now you got to have a sausage maker, who's probably going to be making 35, 40 bucks an hour. Okay. Then you got to have a lead man on your process floor, talking about 22 bucks an hour. You got to have at least four in there and a sausage maker. Now you got to have a plant manager. You have to have shipping and receiving. Got to have secretarial work. It just goes. (Indiscernible) what it costs (indiscernible).

When Don ran the plant – not to criticize how Don did it, but he started with way too many people. And then we started out with 35 people and, you know, you start knocking them down because everybody was a meat cutter that lived in the Valley at the time. So we hired – we had 35 people there and at the end we dwindled down to about 12, 13 employees. And I think we could have made it go, but it's – we ran out of livestock for one thing. I mean, we were killing everything that was presented to us. And you know, pretty soon. And then we got in a situation where how far could Don extend himself. And that's where Don couldn't extend himself any further.

Unidentified Speaker: Ray, I got a – go ahead.

Mark Neuman: I – just something interesting struck me as you mentioned that 30 percent, you know, your cost of inmates is 30 percent of that minimum wage labor that's going back – it's going back to corrections.

Frank Huffman: No, that was if you were in a joint venture. If you were in a joint with the private sector you would be paying minimum wage to the inmate. One-third of his wages would be his gate money, one-third would be for his incarceration and then one-third would be the payment you would pay him that he would use, you know, within the correctional system to buy his clothes, to buy, you know – you got to realize in corrections now everything's not really free for the inmates. If they go see the nurse, it costs them $4.00. If they get a Band-Aid from a nurse, it's four bucks. If they get an aspirin from the nurse, it costs them $4.00 out of their pocket. So it's really an incentive program for these guys to do something in there so they have a little bit of money.

Mark Neuman: Well, just a real quick follow-up and trying to fall back on Mr. Sherwood's question about is there any particular thing that we can target. You know, labor's always probably the most expensive thing in any industry or business. But you're covering the cost of transport, supervision, all that and getting a cheaper product to corrections in the price of hamburger. I'm assuming they'd pay considerably more than $1.90 a pound.

Frank Huffman: No, actually they're paying less.

Mark Neuman: They're paying less.

Frank Huffman: Yeah, they're paying less.

Mark Neuman: But their – is the cost for transport and all that, that's all coming out of this $195,000.00 loss?

Frank Huffman: Yeah. Yeah, we supply our own transport, whether it's me or the two production managers, we transport the inmates in the morning and in the evening. Prior to DNR – see, when corrections – we had two correctional officers at the meat plant. And that was part of the money that we cut out and that helped bring – you know, bring us up closer, because we were paying for those correctional officers, but we had a lot more inmates. Now we're down to about 12 inmates, on average, 12, 13 inmates. So we are security. The production managers are the security for the inmates. We are the transportation officers for the inmates.

Ken Sherwood: Just a follow-up, in your opinion, given the number of animals there are to slaughter and process, is there any good economic reason why a private person would get a USDA stamp of approval?

Frank Huffman: I can't think of any, why anybody in the private sector would even want to attempt to in that building.

Ken Sherwood: Any building.

Frank Huffman: That I can foresee right now.

David Wight: And that's consistent with how many efforts to sell this business over the last five years? Three and no customers.

Frank Huffman: No.

Rhonda Boyles: Joe.

Joe Van Treeck: Say, Frank, do you – a couple things, you – who pays for the cost of the USDA inspector? Because that's coming from the state. Is that coming – is that a state/federal program?

Frank Huffman: There is no expense to us or the State of Alaska for a federal inspector in that plant.

Joe Van Treeck: But would I have one if it was my plant?

Frank Huffman: No. Only if you work overtime. If you work – if you had worked the inspector overtime, you're paying $48.63 an hour for that inspector.

Joe Van Treeck: So there's no fee associated with inspection.

Frank Huffman: For normal inspection. Okay. Now, if we start going with non-amenable products, which is buffalo, reindeer, yak, anything that does not fall under the Red Meat Act. Okay, now we have to pay for inspection for them to inspect those products. When we kill Tom Williams' reindeer and they come to Alaska Sausage, we pay that inspector $48.00 an hour to inspect it on the kill floor. Then we inspect – pay them again, when we break the animals down and process the animals, we pay them again for the inspection on that. So if you're going to go into business and you're going to do something other than the four – you know, goats, lamb, beef and pork, if you're going into non-amenables, then you're paying for that inspection.

Joe Van Treeck: And from your perspective, like Mr. Eckert asked me, are you running – I don't know how your business works. I mean, do you run the kill floor.....

Frank Huffman: Two days a week.

Joe Van Treeck: .....so many days a week?

Frank Huffman: Two days a week.

Joe Van Treeck: And then the process the other days or.....

Frank Huffman: Right. Two days a week.

Joe Van Treeck: So you're operating five a days a week there too?

Frank Huffman: Four days. We've gone to a four day work week. Four 10's.

Ray Nix: Any other questions?

Mark Neuman: Maybe this isn't the right place, Rhonda, but I'd just like to know, has there been any analysis done on the closing of Mt. McKinley Meat and Sausage, what that will have on other industry? What will that do to the hay industry if Mt. McKinley – or Delta barley, who purchases a large portion – you know, the dairy farmers purchase a large portion of the barley from Delta. Of course, this is going to adversely affect the dairy farmers. They claim it's going to put them out. I see an effect on the feed mills, you know, all the 4-H programs. You know, I mean, I look at this loss of 195,000. But it seems to me that Mt. McKinley Meat and Sausage has a direct economic impact in the tens of millions of dollars in the State of Alaska. Is that true?

Ray Nix: I don't know if I'd quantify in that same number, but it has a huge, significant impact on not – like you say, on many different industries within the agriculture and some industry outside of that. I mean, there's a lot of money generated. The director has prepared a short, brief summary on some of those effects of the closure of Mt. McKinley Meat and Sausage. It is available. I believe it's in your packet. And so there – we have looked at that, although briefly.

Paul Huppert: I think the previous effects deal with the market outlet for the animals going through there. That's 75 percent that's going into corrections. It's a market they would lose to this – developing beef and to the dairy cattle hamburger industry.

Frank Huffman: Yeah, what you don't – what Paul's saying is someone in the private sector came along and took that meat plant, they're going to lose corrections as their best customer. Because we are with the state, corrections is more apt to – you know, is buying from us. We employ inmates from Palmer Correctional Center. You know, we cater to some of their needs and we're able to do that. Now if Mt. McKinley goes away and a private person comes into it, he has to bid on that contract, that food service contract just like any other company in the State of Alaska. He may or may not get that contract. If he doesn't get that contract, then 75 percent of his business theoretically has gone away.

Paul Huppert: Another thing that he had pointed out and it's not in this equation, is the value of training an inmate. I mean, I think you have to put that into this (indiscernible). Now they're doing it out there at the farm, justifying keeping the farm there, and it was in the paper, because of the value of training goes (indiscernible).

Rhonda Boyles: On that note – go ahead, Gail.

Gail Phillips: Well, I just wanted to clarify one point with Frank. Last –

our last meeting, did you tell us that the corrections purchasing for this coming year does not go – did not go to you folks, but instead it went to the brokers?

Frank Huffman: Right. It's gone to Country Foods out of Canada.

Gail Phillips: Right. So you do not have that 75 percent of.....

Frank Huffman: Well, maybe we do because it tells them in the contract. In the contract it's stated that the Department of Corrections runs a meat plant and runs a farm at Pt. MacKenzie. The Department of Corrections may buy off contract from Mt. McKinley Meats and from the Pt. MacKenzie farm for a product, like product for an equal price.

Gail Phillips: Okay. So a broker really has no contract with the prison. I mean, if they don't have to honor the contract with the prison if they can get the price cheaper from you.

Frank Huffman: Or some of it's convenience.

Gail Phillips: Boy, I wouldn't bid on the project – contract like that.

Unidentified Speaker: Yeah, it's a worthless contract.

Gail Phillips: Yeah, exactly.

Rhonda Boyles: Based on Paul's comment, there was an article in the October 10th on the Pt. MacKenzie farm in Anchorage Daily News. And although, Stephanie, I think that's who the reporter is, does a pretty good job. I think there was some areas that needed to be clarified. So Rachael just informed me the staff – the superintendent of Pt. MacKenzie put together this sheet that Rachael just passed out to you.

Paul Huppert: Can I make a comment on that? I don't believe some of the things he put down, Rachael, because of the fact you can check it with our direct – to my knowledge, there was no certified seed produced from the Plant Materials Center. And I know all the seed growers that were certified seed growers in this state. And to my knowledge, they did not sell to the Pt. MacKenzie farm.

Rachael Petro: We just got that information this morning, but if the director wants to check on that with the PMC, I would hope we would have records and we can certainly take that issue up with corrections.

Paul Huppert: And I want to ask about what's the liability of them hanging moose in their barn, packaging it, and giving it – I'm sure if some indignant guy down on the street died of E. coli, his family might inherit a good lawsuit.

Rhonda Boyles: Paul, I – and I don't know that we want Rachael to have to go there.

Rachael Petro: I can't. I can't answer for corrections. (Indiscernible) DNR stuff, so.....

Rhonda Boyles: We know there's lots of opportunities.

Paul Huppert: Well, my – I mean, we've got the regulations and we've got all these things in effect by the state and I hate to see a state institution that's self-abusing it, plus the fact, you know, I think that it's a great idea they produce that and we're going to build a 2,200 bed prison someplace in this area and I think we ought to use all those well-qualified inmates to build that institution and use the legislature to cut that out of the budget.

Rhonda Boyles: Ray, thank you for your report. Okay. I think that I want to remind you about the scope of work. We gave you this in your packets before started this – down this road. And I just want to review it. The objective of what we're going to try and do is we're kind of at a transition place right now. Draft a factual, informative, representative transition report on Alaska dairy industry for the next administration. Key words, factual, informative, and representative to the transition team.

Purpose, our purpose will be evaluate as objectively as possible the volatile and difficult situation facing Alaska's dairy industry, including farmers, creamery and dairy support industry, which is hay, grain and slaughter, which is where you were going. The product, the committee will evaluate the facts and make recommendations for resolution, sustainability or dissolution of the Alaska dairy industry. The report should contain recommendations as well as financial needs to accomplish these recommendations. And of course, our decisions are made in the best interests of Alaska's citizens, plural, State of Alaska citizens.

So in saying that, I would like to have us take maybe a little bit of a break. And the reason for that is you all around this table now are faced with how are we going to come to some kind of a conclusion on what we could do or should do with the dairy industry in Alaska. And I – if I were in the position of one of you on the committee, I think I would have a general idea how to proceed. I can maybe help walk you through that somewhat. But it is your decision as to how you want to proceed. Kind of what questions you need answered between now and next meeting. Because the next meeting, which is Tuesday, a week from tomorrow, is devoted entirely to brainstorming the solutions.

So now that we've sat for two full days and listened to the reports – and I know that some of the information -- overwhelming, to say the least – also may need to be clarified or we may need additional information. But I'd like to have you think about that over this break. Talk to one another and see if we can, the last 40 minutes or so that we're here, 30 or 40 minutes, kind of go down the road a little bit to the process that you'd like to use to come up with…..

Ernie Hall: Rhonda, the next meeting is next Monday.

Rhonda Boyles: Is it Monday? Sorry, Wes. Too many things going on. So it is not Tuesday; it is Monday.

Unidentified Speaker: It's – I know two weeks from now (indiscernible).

Rhonda Boyles: So I think the process that we use, the process that you all want to use, the questions that you might want to ask this afternoon so that the staff can be gathering additional information if you need it. We need to come back and give the staff some direction if that's – if you have questions that are burning. So think about that over 10 minutes and come back and we'll talk about it.

(Off record)

Rhonda Boyles: Lora says ready, just hit the button and it's on tape. Okay. Cool. Thank you. Okay, I just told Ernie and Mac who said they're ready to talk. Tell me what to do because that's what I'm supposed to do, just facilitate. And in the absence of your suggestions, I'm going to make up my own and then we will be in trouble. Okay. So this is as far as I got and I did this in the ladies' room. In the ladies' room you get things accomplished.

Unidentified Speaker: We checked with Candy on that.

Rhonda Boyles: Obviously, there's a whole dairy industry we've got to look at and we've got four quadrants, producers, hay/grains, creamery, the production side and finally when the little old cow gets over there to Mt. McKinley. So where do we go from here? How do you want to approach this? Ernie.

Ernie Hall: Well, what I need to know prior to really being able to formulate a plan is what the cost by that – what amount of dollars is it going to take for the producers to continue to operate. Now, it would appear to me that, you know, we basically heard that they need another buck and a half a hundred weight. So with the rate of milk bought at a buck and a half, what is that number? Will that indeed be able to keep them operating or make them whole? And does that take into consideration the loss of the $2.00 that they continue to discuss that – okay, so you got $2.00 so you're talking 3.47.

Unidentified Speaker: Yeah, we're talking $25.00 so from 21 up to this, three or four bucks.

Mac Carter: 3.47, I guess.

Ernie Hall: Okay. Well, but – yeah, 3.47. So to me that's what we need to know, what it's going to cost to do this. We basically have some idea about Mt. McKinley at $200,000.00 deficit that you're looking at there to be able to make that whole if it continues operating the way it's operating. I would also be curious in the creamery, we have a lot of talk about Alaska Grown, organic. If you actually went in that direction, what would be the cost of being able to do that? It's more complicated than just putting it in a package and putting it on a shelf. So what would be the actual startup costs of being able to go to that specialty item? I don't suppose we have any idea of getting some idea about what the market size is. I shared with Linda during the break, I probably spent 20 years in this conversation about different industries with my term on the Chamber of Commerce and economic development of ideas that people come in that if I do this and I have this many customers and I can make it work. And the reality is, we're a small market in Alaska. We've had some industries here that have done it and done it well. But basically, their market's been the Lower 48. Alaska Berry Products would be a very good example, but his – the majority of his sales is outside of the state.

So I would need to have those ideas – and it would appear the hay and grain is doing okay, but we've told if some of this comes out of the CRP then there's probably going to be an impact on hay and grains. And they're going to have to have some kind of an offset. But currently with what they're getting with subsidies and what they're selling to the producers, it would appear that they're whole at this point. So those – I think that's critical information that I would need to be able to begin to put together some kind of an idea about how you put this together. And you have to look at the four elements as one entity.

They're all so interdependent on each other, I don't know any other way that you could do it.

Rhonda Boyles: Mark.

Mark Neuman: Yeah, Rhonda, and just kind of playing off a little bit of Ernie's comments. There's, again, they're all very much intertwined. I think one of those goes, you described it as a three-legged stool – but I think when we look at – you know, when I look back at what I am supposed to use as a legislator with missions and measures, and it's -- missions and measures, for the people who aren't aware here, it was a blueprint set up by the Department of Ag that says here's – you know, how – this is why we're doing what we're doing. And the legislature – how closely has the legislature followed that? I mean, this – the legislature obviously is going to be involved in some of this decision-making, whether ARLF is funded, or the Department of Ag is, you know, fully funded out of the general fund instead of 25 to 35 percent of that is coming out of ARLF.

The state owns the 1,000 shares that make up Mat Maid. You know, how are they going to work together? And this is very clearly set out in their missions and measures at the state level. And as a legislator, it's much easier for me to bring any of the solutions that we have if we can compare – you know, as a business person, I have a business plan. I'll just state real clearly it's this way. And if you don't follow that business plan, you usually get burnt. Because you set out a plan for yourself and then where you need to go on that. Are we following that plan in this state? And each one of these issues or each one of areas are covered in that business plan. How closely – I'd like to see a comparison of how far off we've gone on that.

You know, the state's taken, according to conversation I believe we just had, is the state's taken quite a bit of money out of ARLF to fund the general fund. You know, $60,000,000.00.

Unidentified Speaker: Twenty.

Mark Neuman: $20,000,000.00. You know, that goes a long ways out of that $200,000.00. We've got $1.5 million in inventory and a $200,000.00 loss. I mean, I don't think it would be that much difficult to make up $200,000.00 on 1.5 mil. We don't – we haven't looked at the effects to the Department of Corrections on a lot of this stuff too. And I don't see why DOC's not sitting at this table helping us come up with some of those decisions and some those answers. I feel they need to be sitting here. You know, can we get them here?

But again, there's (indiscernible). You know, we need to come up with a plan, but some of the – again, the question, just to reiterate, can we fund ARLF out of the general fund – or the Department of Ag out of general fund instead of ARLF? Are we following the blueprint laid out by the state. As a legislator, I mean, that's what was statute. I mean, that's our law. And again, comparing some of these other programs to each other and I'd like to see a cost analysis.

Agriculture has been funded in one way or another in America. Since America became America has had some type of subsidy. And there's a reason why. It's because of the economic development that's put into it. You know, we're looking at, I think a marginal – at one time – Mat Maid's been doing great.

It's been running in the red – or the – it was making a profit in the black, this year a little bit in the red. But look what it's doing to our economy as a whole, you know. I think these are some of the questions, if we could come up with that, you know, we're asked to say come up with a blueprint of how we're going to cover these. But there's a lot of – how do we come up with those questions? How do we come up with those answers?

Rhonda Boyles: (Indiscernible) Mac.

Mac Carter: Okay. Number 1, we need to – if we're going to provide an additional stipend to the farmers, we need to know what the cost effect will be to Mat Maid because it's intertwined. You know, is that increase of $4.47 from $3.47, you know, how much more percentage of sales is he going to have to come up with. Or what is the increase that's going to have to happen for the cost? Or how many other products can we devise to be able to sell with what Mat Maid gets? Or how many more gallons of milk will we have to import to make up the sales, you know, that he needs? Or how many more contracts will we have to get to fulfill that need?

I don't think we can factually give a good report unless we've got that thread that I asked for last week. We need to know if the closing of Mt. McKinley is going to effect 20 percent of – you know, or what percentage of the workforce out there, what is the dollar figure. I want to know how many – what the business effect will be. You know, if it's $1,000,000.00 and we're – you know, whatever the savings would be from the sale of those products to Division of Corrections, you know, whatever that figure is, whatever the figures from individuals that we're purchasing meat from to fulfill the orders, which is partially here. But I don't see the thread all the way back to, you know, from Mt. McKinley all the way out. Because there's somebody out there that we're leaving out, I'm sure. I mean, is it $1,000,000.00 that we're putting into the economy that it's making money or that we're providing jobs or, you know, the flow back basically to Mt. McKinley. I want to see those figures. And I haven't seen completely – a complete list.

Rhonda Boyles: Mac.

Mac Carter: Yes. Go ahead.

Rhonda Boyles: I just spent Saturday with some university students asking them to take that five minutes sentence down to one or two or three.

Mac Carter: Two words.

Rhonda Boyles: What I heard you say was if we close Mt. McKinley what is the effect on labor pool and what is the effect on corrections, or what is the effect of the economy surrounding Mt. McKinley.

Mac Carter: Right. Basically that's it. Effect in the economy. And that would include everybody from the farmers to the person that buys them.

Rhonda Boyles: Now remember you're asking – we're talking about how we're going to approach this. And then going to make some assignments.

Mac Carter: Well, you know, it says right here, evaluate the facts. And we haven't evaluated those facts yet and we haven't got to see them, not in total, I don't feel.

Rhonda Boyles: Good point. Thank you. Joe, you were next.

Joe Van Treeck: Well, yeah, I had two things that were to a certain extent we're operating in that model is if the dairy industry operates in a vacuum with everything else that's in it, including Northern Lights Dairy and the producers in Delta Junction. And so as we're trying to determine what the price for milk or anything else should be, I don't think that's a fair analysis because Mr. Lintelman, you know, is truly a private sector entrepreneur that's doing his thing. And so I think there's been – you need to take that in to this because you're going to affect his business model too with whatever you're doing because the state owns these other assets and we make some asset plan decision.

The second thing I think should be laid out there for discussion is that the business model Matanuska Maid's under today is a corporate model, private, corporate model, which brings private corporate requirements and needs. Maybe that's not a right model going forward either. Maybe it's going to be easier to make things happen if the primary objective for the creamery is not profit, which it is today. And we look at it more as a vehicle for the farm side of the equation in the dynamic. And I want to throw that out because we need a frame of reference for what we're doing here with all this because the business model is there. It does bring, you know, as I always like to say in some orange jumpsuits and ankle chains. I don't want to be out there learning how to cut meat with Frank on the other side of the equation. So, you know, there's a fundamental structural thing with the dairy with Mat Maid that's got to be considered in this as well.

Don Lintelman: We can't afford to pay $25.00 a hundred weight for that because our sales our going down and we need to increase production. There again, it's going to cost more for us for employees, workmen's comp and all those other things that goes along with it. And right at this point, our employees are very hard to get. We pay above minimum wage, but there again, we can't get anybody in there to stay long enough to learn them the operation to begin with. They're on drugs or alcohol or something. There's something wrong and we've had this problem just about from the beginning. So we're just doing our own thing with our own people, so.....

Rhonda Boyles: Frank may have a better labor pool than he thinks he does.

Don Lintelman: He's got it made.

Rhonda Boyles: All right. Ernie.

Ernie Hall: You know, I guess, Rhonda, there if anybody's thinking that my – what I was indicating was if $25.00 a hundred weight solves the problem and Mat Maid just starts paying 25 a hundred weight. That wasn't where I was coming from. I'm talking about identifying what that cost is and then we've got to figure out where the money comes from. But I don't see any way that either Mat Maid or Mr. Lintelman can survive paying anything other than market value for milk. I mean, I don't doubt some subsidy has to come from someplace, but I don't see those two entities as the one.

Mac Carter: Also, Rhonda, I think we actually need to show the figures that, you know, now we've started from, but where in a – you know, because we got pretty good from Candy where the money started at, where it kind of went to for a period of time and then the fact that it's, you know, the legislature has sucked it out of us, you know, all – out of the industry to the tune of $20,000,000.00 and the fact that we have gotten zero budgeting for agriculture for over the last 20 years. It's kind of like the state has kind of just forgotten about us.

Rhonda Boyles: One thing that we can go make that leap, that's why I'd like to do this now, keep thinking about it, we can pull together any additional information we need. But we need to make the leap from where we have been. We've got to this point. You know, when all of us in this – well, a lot of this room can be somewhat held accountable for not acquiring 25,000,000 from Congress, I don't think we want to visit that discussion again. We need to move forward and say new sheet of paper, what are we going to do with the agricultural industry – or I'm sorry, the dairy industry in the State of Alaska. And we can give one, two, three options. This is for the next administration and it's your opportunity to say to the next governor, kind of laying this at your feet a little bit. But what are we going to say in that process. You've been too quiet and I know you have to go get a baby pretty soon, right?

David Wight: Pretty close for my mental model on what we've talked about, I might be able to add a few pieces. But I probably want to make a little bit of a speech first for at least what's in my head. What you've convinced me after two days is this thing is a matrix. It's not a simple little stool because if you move one leg, you're going to wiggle all of the other three legs too. And there's some direct and some indirect things. We need to have some feeling about those.

I can simplify it by talking about Mt. McKinley for a minute and then we could think about how that applies to each one. But Mt. McKinley, at least on paper, we say – we know what it's doing, you can't change the business model on it a heck of a lot. It loses $200,000.00 a year. Now, if you close it down, it probably has a $200,000.00 a year direct impact on the dairy producers. We need to know that. But there's some indirect beneficial things that go on around Mt. McKinley that we at least need to be able to tell people about when they're thinking about where it should go. And I don't know exactly that those are. And I think that's true all the way around.

So that's kind of the first layer of that And I think I see it on Mt. McKinley. I'm not sure about the others yet. But then if I go to the creamery for a minute, right now it's kind of at a break even. But I guess the discussions I've heard is that one, the model maybe should be different. And I need some understanding on what's the cost of that model being different and is it a potentially viable alternative. And that relates to things like what's the size of that niche market, what would be the value of it. If it's smaller and you have say 40 percent of the product you've got today, which is the niche market side, will it fit in the niche market here and what do you have to have for it to make that a paying thing. So that's one part of it.

Another one is, is that without some kind of change I think like the dairy producers have said, something's got to change or they go out of business. I'm afraid the creamery is – sits there right on the cusp of that same thing because they've got 40 year old equipment, they've got all these federal regs and stuff like that. Something's got to change. And it's not just whether or not the creamery pays the producers an extra dollar and a half or even $3.00. It's something else. And then you – if the creamery couldn't pay it, we know what the negative is. So that's kind of what I think we've got to be able to get our arms around.

If the dairy producers go out of business, well how much grain and hay is no longer needed in the system and what's the impact on those. And so that's why this thing is very tightly knit. And we've talked about it, but I don't know how to put it all together right now. I know how to ask the questions. Does that make sense?

Rhonda Boyle: Uh-huh (affirmative). Uh-huh (affirmative). And we've been given a lot of facts that I think can answer a lot of your questions.

David Wight: There's a bunch that's not there. I don't know how to look at niche market. You know, cost, viability, market size, things like that. You know, it could be that you got to with the volume we're talking about, maybe you have to sell it at twice market price. Is that practical? I don't know. If it's – or maybe it's just 50 cents and that's possible. But I don't know how to evaluate it. I don't know what the impact is on the grain industry up here if a large part of the dairies go out of business. And we do have some idea that if – to make the creamery survive, you go to a more competitive price model on milk, we know what that does to the producers, at least part of it because it says they got to find another way to get another buck and half or something like that.

So those are the pieces that we need to see more of and then we can think about how this all works together. And we'd be able to tell the stakeholders, which is the state in large part in this thing, here's what it takes for you to consider to keep this industry viable, at least for these parts of it. And I don't know whether it's $200,000.00 or $10,000,000.00. And I think that's what we want to know.

Rhonda Boyles: And I think it – I don't know, maybe it's a good point here to think about is how far do you want to peel the onion back. How much do we want to – a lot of the questions you asked we will never be able to collectively come up with all of that without having some pretty serious work done between now the next meeting by the staff.

David Wight: Well, don't you think.....

Rhonda Boyles: You should have it.

David Wight: .....there's people in the staff that can at least give us scoping answers.

Rhonda Boyles: Estimates.

David Wight: I – you know, there's a process that business goes through and it's about a five step process. And one of them is at the front end of doing anything, you kind of do a scoping thing. And it – you know, if you're out of the ballpark, well then you say, forget it. But if it looks reasonable then you go into more detailed plans. But I don't know how to scope it right now.

And without that ability to do that, then I don't know how to recommend to someone what they might do with this. I don't want to reinvent the wheel. I don't want massive amounts of data, but I need at least some high level of outline to be able to suggest how this model goes forward.

Wes Eckert: Well, I think to do that though, you need to be very specific, you know, and get line item specifics of information.

David Wight: Well, I – for me, I think I could do that right now, but I'm only one of 10 or 12 people that are sitting here trying to solve this puzzle.

Rhonda Boyles: (Indiscernible) down the road for specifics. Gail – before we do that, Gail, what was your thoughts?

Gail Phillips: My thought was in addition to all of this, the factor of good economics and all that, is the political reality that dominates this whole agriculture and dairy industry in Alaska. And if we are going to look – and I'll just take a little, small example. If we're going to look at changing the focus of Mat Maid to create this organic, niche market type product, then what you have to do is go back to the basics and change the scope of responsibility for Mat Maid and change it from a profit entity to a non-profit entity because that's what it will become.

So overseeing everything we're doing here is the politics of reality. And as we get into these – a lot of the suggestions and such, I mean, we're going to have to look at the politics also.

David Wight: But isn't that – Gail, isn't that involved in the decision-making process when you have the information to look at?

Gail Phillips: Not necessarily, no.

David Wight: A political decision you would like to have made in light of the financial information that sits out there.

Gail Phillips: Not necessarily.

David Wight: It should be done that way.

Gail Phillips: It should be. Historically, it has not been.

David Wight: I know. But we're trying – I think we're about trying to bring it up to a level of where you can look at it and if it's going to cost $1,000,000.00 a year and it's important to the state and the ag industry to do it, then you make that decision. But you know that you're spending $1,000,000.00 a year rather than you don't know it, but it just keeps disappearing.

Rhonda Boyle: And Gail, I think that some of us who've been involved for the last three or four years, we don't have anything to take to – down and talk to Mark Neuman, nothing substantive that says – if you – Mark, if you work towards giving us a half a million dollars this year this is where it's going to go because this is kind of the plan. But the plan has to be based on good, sound judgment, otherwise we're not doing our job. So I think one, two and three choices would be good to give to the next governor. And if there was no political will to come up with choice number 2 that's going to take $10,000,000.00, so be it.

Gail Phillips: That's the choice. That's the choice that is made.

Rhonda Boyles: That's the choice. And then we can go back to making our decisions relative to lending money say, hold it (indiscernible) commitment to ag here, why are we going to let this person borrow $1,000,000.00 and get into trouble. So we have to have more than what we've got now. Just a second, Mark. Wes (indiscernible).

Wes Eckert: I think there has to be – you know, from where I come, there has to a touch a reality here about what is really the real word on – what's really happening here. And your competition or whatever you're talking about in that four-plex circle you're talking, it's the competition from Outside. That's the bottom line.

Mac Carter: That's good point, yeah.

Wes Eckert: And the bottom line is you're not going to get the retailers in that – in this region to stop doing what they're doing. And the two big ones are Fred Meyer, which is a Kroger operation, which is one of the largest grocery chains in America. And the other one is Safeway, and they also rank right up there. Both of which have their own processing operations. And those processing operations are not profit centers. They're simply an extension of grocery store. And they run them, their own plants, all over the country only to get the lowest price into their stores. That's their whole purpose so there's not a profit center link there in any way, they're just providing a service. And they're not going to change that model.

And you got Costco and Wal-Mart are the other big ones. And if they come in with a super store, Wal-Mart, you're going to have – they're the largest single retailer in North America in groceries. And they're going to be formidable. I know that Safeway and Fred Meyer's are going to gulp really hard when they start opening their stores. So that's where the pressure is.

And so what Mat Maid and Northern Lights have to worry about, you know, how are we going to survive in those stores and keep going? Now both of them enjoy a real following in the – Northern Lights in the Interior and Mat Maid in Southcentral part of the state. And they can get a premium, you know, and I don't know what that it is, Joe, or Northern Lights. But maybe 50 cents a gallon or more that you can demand because of your local brand.

Joe Van Treeck: From the consumer?

Wes Eckert: Yeah. Or less?

Joe Van Treeck: Well, actually, I – well, you'd say it's at 35 or 40 percent of the purchasing decision is being made at somewhere between a buck and two bucks a gallon over the ad price for the competition.

Don Lintelman: You know, with us it's – well, it depends on when the big wheels come up from down Lower 48 to look at these stores and the pricing in there versus our salesman going out there and trying to negotiate with them. So like I said in two week's time they dropped the price twice. You know, so they dropped the price anywhere from 10 cents to 25 cents a gallon. And so they aren't making that much of a profit on our milk. And evidently they're probably making – I would say $1.00 a gallon.

Wes Eckert: So what you have to do is figure it backwards, you know, and say what can they afford to pay. And really the Outside milk coming from the Lower 48 and the local retailers are going to set the price that these fellows can afford to pay. And there is a limit. There's an absolute limit and that is not going to go away and there is no magic bullet to that. It's unrealistic to think without a direct state subsidy directly to the producers there's no way these operations can pay $25.00.

Yesterday – or last week we talked about the local producers are getting 23.57 for their milk with all of the free hauling, and the quality bonus and the every other day plus 19.75 it totaled 23.57. And compared to what the Outside producers – you know, that's not a double, but it's awful close.

Rhonda Boyles: Regardless of how much of a commitment that we in this room might have to maintaining a dairy industry in the State of Alaska, because we know it's going to require some kind of subsidy from somewhere to somebody, there has to be a commitment above us.

Wes Eckert: And that's talk about – Gail, you talk about the political will, how much money are the taxpayers of Alaska….

Gail Phillips: Willing to subsidize.

Wes Eckert: ….willing to subsidize operations. Now, here you got a guy right here who's in the produce business. I doubt that he's taken a dime worth of subsidy in his life. And they're doing well. And the hay people are also, because I understand they're doing really well. So – and the feed industry obviously has been doing pretty well. So there are industries in agricultural arena, you know, self-sustaining. But, you know, in the real world you just can't – unless the state – and you shouldn't put it on the burden of the operators, the state's willing to pony up millions and millions of dollars year after year after year, that's what called political will.

Rhonda Boyles: And good oil prices.

Wes Eckert: Yeah, good oil prices.

Rhonda Boyles: And a lot of prayer and lobbying.

Wes Eckert: I told you last week when we were here, if we – everybody was paying their state income tax like before, we would be at this meeting today.

Rhonda Boyles: Paul.

Paul Huppert: Well, Wes said practically 100 percent of what I was going to say. But two things, number 1, I think we all face the fact that it would have to be a subsidy. I still would like to see that subsidy on cost of operations, hopefully to – you know, what Chad Padgett had mentioned, the 25 percent of operating costs to lower – or whatever it would take to make up the differential.

And you know, my feeling is that – I don't know – well, maybe the more inefficient ones would get more money than the efficient ones. But basically, that would be – it would help them lower the cost and possibly encourage even bringing in animals.

The other thing, you keep talking about that organic milk and I haven't heard one of these dairymen say, man, I'm going to start producing organic milk tomorrow. There's a lot of regulations to doing that. And it's not as easy said as done.

Rhonda Boyles: I think that based on the fact it's quarter to 5:00 I want to get a point where we get some specifics. Let's get some – do some specifics statements of request to the staff.

Gail Phillips: I would recommend that we come up with a specific statement regarding ARLF and the non-continuance of funding the Division of Agriculture through ARLF.

Rhonda Boyles: Got that, Candy?

Gail Phillips: That's an easy one. It's a no-brainer almost.

Unidentified Speaker: Just take the BAC's last resolution.

Rhonda Boyles: And we'd put some numbers with that, okay? Oh, I didn't get that in my summary. Sorry. Okay. Second specific.

Chad Padgett: (Indiscernible).

Rhonda Boyles: Oh, happily, Chad. Jump right in there.

Chad Padgett: I don't mean to jump in there, but maybe one thing what I was alluding to this morning and something I think everybody has to understand and maybe this will save everybody a lot of time. If you look at basically the makeup of what we have right now, we have six producers in Southcentral if you split out both Trytten operations. One of those is ready to go January 1, I think or sometime in January. So that takes us down to five.

If you boil that down further to the paper that we hold that's on three of them. Like I said, within the next year, most likely those will be gone one way or another. And to clarify that just a little bit, I'm under statutory requirements. We've held back on our statutory requirements for the last five years. I can't continue to do that. So because of that another three of those will be gone within the next year. So.....

Rhonda Boyles: Can a miracle save them?

Chad Padgett: Barring an outright buyout, no. I just don't see it. Mainly because of the way the loans were done before. So three of those are – I don't see how they could exist. So I think we owe it to the producers to let them know that. And I think you guys need to know that because everything else that we're talking about here, that's four out of the six. The other two, age is catching up. I don't know that they've got any kind of plan for somebody else to take on the operations afterwards. From what I know, neither of them do. What happens from their standpoint I don't know, because I don't know their financials that well. So we're down to two in the state within a year.

Time wise, and this comes back to what Gail was talking about earlier with the political realities, what kind of time do you have politically to provide a subsidy? I told you this morning that at earliest 2007 farm bill was not going to be online until next October at the earliest. By the time we deliver, you're eight to a year from that. Politically, there's no time to get cost of production together before this happens in dairies.

Rhonda Boyles: So let me repeat back what I think I heard you say.

Chad Padgett: Sure.

Rhonda Boyles: That barring a miracle, we'll be left with at the end of 2007 two producers with no succession plan.

Chad Padgett: Correct.

Rhonda Boyles: And very little flexibility to hang on to the three that you may have to – boy, how long are you going to keep your job, Chad?

Chad Padgett: (Indiscernible) pretty fast.

Rhonda Boyles: Is there – can money solve this problem?

Chad Padgett: That's a million dollar question. I don't know. It could. I mean, it – again, it comes back to the short-term versus long-term. One of the reasons we haven't taken the necessary steps over the last five years to take these actions, is we've been asked can you hold off and walk through the process instead of run through it. Can we hold off while a solution is being done.

Again, you heard my frustrations earlier this morning. We did that. We've already gone through five years of that. I don't know that anybody can give us the commitment we would need at this point to continue. It would be very difficult.

Rhonda Boyles: Mark, what's going to happen down there in Juneau when this happens?

Mark Neuman: Well, going back to the political reality, I think agriculture's risen up the ladder in the scope of what legislators are looking at. I know that I have worked very hard in the last two years to bring more presence to legislature in recognizing the fact that ag does produce tens of millions of dollars of economy in this state. It does. Whether, you know, through a combination of all these areas. Now, we've heard that the state puts millions and millions of dollars a year into ag and it doesn't. The only money that the state has put in, you know, is a small loss at Mt. McKinley Meat. Joe's operation's been doing okay. It's holding its own.

I think the political reality is there. I think we needed to have Joe take a look – we talked about how the dairy industry is having trouble right now because you have large corporations coming in. Well, what does any small business do? If I'm selling sporting goods and Wal-Mart comes into me, I have to find another market that I can sell, a niche market so I can stay in business because I can't compete direct head on. So I got to sell a better product that enough people need.

And we work together with the industry to come up with that market. Can we find something that's a natural market? Something that Joe can maybe produce one day or two days a week where he's producing an Alaska Mat Maid product. You know, something that he can help Mr. Lintelman up there with his operation too. We have the product loyalty in the state I think to help support that. I think we've seen that in some of the farmer's types markets that are growing.

But again, what are we going to do? Maybe, Joe, can you produce something like that that says – what would it cost to get? Is it going to be $5.00 a gallon to be able to pay the producers $25.00 a hundred weight? Do you know, and how much are we going to be able to sell? Is that possible? What are the economies of scale that we're talking about here that we're actually doing (indiscernible). What's, I mean – but I have to have something.

You said what can you bring to the legislature to say this is worth investing in Alaska. Numbers from Larry's department that are going to say ag produces this many millions of dollars in the state and here's actually what's it's costing the state. You know, we spend millions of dollars, $15,000,000.00 on a school, a billion dollars on a road project here proposed by the governor. A billion dollars. We're talking about $200,000.00 investment in the State of Alaska to save tens of millions of dollars. Let's get the political reality out there. What is it costing us and what is the return back to the state? That's something that I could take to fellow legislators to say here's where we're at.

Paul Huppert: Chad, are you saying that those two Delta dairies there's only going to be one left?

Chad Padgett: No, those are just Southcentral.

Paul Huppert: Oh, okay.

Rhonda Boyles: How many (indiscernible).

Chad Padgett: We don't have anybody (indiscernible). But there's only two there.

Rhonda Boyles: Gail.

Gail Phillips: I'd like to see us address the specifics of whether or not it would be politically feasible to change the WIC regulations so that we don't have that hanging over our head in trying to sell and to market our product in the grocery stores. And also, I'd like to see the information on the $2.00 subsidy that the state is putting up and whether or not it is feasible that that $2.00 subsidy will be continued and how much that $2.00 subsidy amounts to financially and with running it out about five years or so with the actual factual number, you know, numbers as to what that's going to cost the state.

Unidentified Speaker: I don't want to step out of line here, but that brought up a very good question. Joe, you know, discussions we had earlier stated that he lost a contract for some of our schools here for, what $100,000.00 a year or something. Just missed it.

Joe Van Treeck: It was less than that. Yeah, it was close.

Unidentified Speaker: Just missed it. And that would have increased your market share tremendously. You know, which would have put you in the black this year.

Joe Van Treeck: Well, and the other thing that does and Mr. Lintelman has some school stuff up north too, but one of the things we're missing as an industry is the marketing support. You know, and that school business with those half pints with the kids, you know, it's 180 days a year. It's a lot of advertising.

Rhonda Boyles: Okay. Can we come back to some substance that we can come to conclusions the next day that we're here? Okay. Mt. McKinley, we talked about what is the effects on the surrounding economy if we close Mt. McKinley. Ray, Larry, Frank, can you give us an estimate of that? Can you do that between now and next week?

Director DeVilbiss: Well, I did a paper there that shows the first level effect on Mt. McKinley's customers. I'm not enough of an economist to take it down to the next secondary impacts that would be – but maybe Rachael.

Rachael Petro: No. I was just going to say that Dr. Lewis – you know, we talked about the multiplier effect in ag and, you know, how Alaska compares. It does not compare. It seems to me that you ought to be – you know, we ought to be able to take a number and use that multiplier to, you know, put a number out there. You know, there are – Larry did provide some basic numbers with you know, the direct effect on the closure of Mt. McKinley and Sausage. And that – you know, that's assuming that nothing steps in, you know, private industry doesn't step in to take, you know, on the role there. So I mean, I think there must be a multiplier effect. And I'm wondering if the division can work with Dr. Lewis and using that and do a conservative estimate on that, a multiplier effect. I mean, I think the same can be true for all these. I mean, it's a shot in the dark, but it's something.

Rhonda Boyles: Yeah, at least we'll get some kind of number. The cost of survival for the producers. Who can best give us an estimate, thumbnail approach to that?

Chad Padgett: (Indiscernible) on our side.

Rhonda Boyles: Huh?

Chad Padgett: 10,000,000.

Rhonda Boyles: On federal side.

Candy Easley: I guess I don't understand the question because some producers don't have any debt. So I don't – you know, I don't think the answer is to say how much is it going to cost to pay off the debt on those that have it.

Rhonda Boyles: We heard today they would need $25.00. We heard from three producers, $25.00 per hundred weight. We know how much they're producing, right, Joe? So can we just do the multiplication? How much is $25.00 per hundred weight compared to what we're paying now. And you can get that – I'm not saying you can do this, but I – we have to look at that number. What's the number?

Candy Easley: I think in fairness though that's today.

Don Lintelman: Well, 22 is our cut off point right now. So it was.....

Rhonda Boyles: What would it cost you to go up $3.00, I need that number. And I know that's today, Candy, but we have to do something.

Candy Easley: No, I'm just saying if you're asking for funding for today, that it's just going to keep going up.

Rhonda Boyles: Oh, yeah. We know, yeah.

Ken Sherwood: Well, I – just a comment. You know, Chad said that there's no way that those three or four producers are going to make it, right? So you're talking about two producers. You're whole plan is kind of screwed up because you're not talking about saving an industry. Now you're talking about resurrecting an industry. There is no – I mean, two producers is not – can you figure out what kind of milk plant you're going to have with two dairy producers that have 85 cows on each farm?

Paul Huppert: Not a lot. You have to start shipping it in.

Ken Sherwood: I mean, you know, that's what he just said sort of. And again, I'm not trying to get us sidetracked here. But I mean, that – if you look at reality, what kind of proposal are you going to come up with with 170 dairy cows plus Delta Junction to fund a remodel of a creamery. And you're talking about subsidies. Subsidies are nothing. There's not going to be a whole lot of milk.

Joe Van Treeck: Actually, if you look at it that way, Don won't need me. Don can just come down and pick up the – you know, contract with Carlile and pick up the milk and haul it up there. We become redundant on the local milk side.

Don Lintelman: Well, I'd probably have to pick it up myself. I can't afford Carlile either.

Joe Van Treeck: But that's about the equivalent of what – it's probably about the equivalent of what you're pulling up now.

Don Lintelman: Yeah, my kids work for nothing other than the farm. That's all they're going to get at the end.

Ken Sherwood: I mean, my question is there any way that you postpone. I mean, you said legally you can't. You've got to, you know, do whatever you have to do on these. But you've gone from six to two and they're not big farms.

Ernie Hall: Yeah, I think that's – that would kill it.

Rhonda Boyles: You think we have to have a meeting next week or we just write that up for the next governor.

Ken Sherwood: But I mean, I think, you know, there's – that the state needs some direction. I mean, I think they've kind of screwed this thing up and changed and you know, you talk about political will, but that changes every four years. And I think that, you know, you do need some things like funding for the Department of Ag and what you're going to do with ARLF. And you know, if you're going to have a dairy industry, I mean, it's going to be in its infant stages here pretty quick. There should be some sort of plan. I mean, I don't think, you know, this is all a waste of time. It's not. But I mean, Chad drops this ball on you at the end of the day, it kinds of makes it – it kind of seems like, you know, how are you going to kind of plan for all these things when you've got, you know, 170 cows producing milk in Southcentral Alaska?

Rhonda Boyles: That's what we're here for, Ken.

Ken Sherwood: Well, we were here for six producers; now we're here for two producers.

Rhonda Boyles: Yeah, yeah.

Ernie Hall: Yeah, I think Ken's got a very valid point. Number 1, let's be clear, Chad didn't drop on us at the end of the day. He told us that loud and clear this morning. We just chose not to listen to him. I think he's made it pretty clear right now that unless somebody comes up with $2,000,000.00 to cure his defaults, those are gone. I mean, that's what I heard you say this morning.

Wes Eckert: But the problem is how can you forgive $2,000,000.00 of two producer's debts and not give $2,000,000.00 to everybody else? I mean, it's got to be a fair deal here.

Chad Padgett: And that's what happened on the $1,000,000.00 that we delivered earlier. It was the same problem. We didn't do that on our debts. It still didn't fix the problem. So again, back to political will, is anybody willing, even on the federal level, to go out and spend more money knowing that all these other things are in flux like the meat plant, Mat Maid. What's the point of dumping more money into it. It just – that's the best I can break it down.

Rhonda Boyles: Candy, you look like you want to say something.

Candy Easley: I'm pacing.

Rhonda Boyles: I know. Go ahead. Talk to us.

Candy Easley: I tend to – you know, I've done loans for so long, I tend to look at something like this and start breaking it down and analyze it and by that I mean what are the options. Listening back here, I'm not hearing you discuss options. I think – Ken and I were talking a little bit at break about, you know, making some changes. I personally don't think throwing more money at it is going to fix it. I guess I would just like to see it more thought in thinking outside of what we're already doing.

The meat plant – the meat plant to say well $200,000.00 is no big deal. Well, we should not be operating that meat plant. Part of the reason it's running at a loss is because we're not good at running a meat plant. I mean, that's not what we're there for. And there has been a couple of different things discussed on what to do with the meat plant. But to just say, well, 200,000's no big deal, we'll ask for 200,000. That's just going to get worse. That's not going to cure that problem.

The creamery, Joe does an excellent job in marketing, but like everybody else who's trying to make a profit, his problems are just going to increase too. And I don't have the answer there. Joe, you do a fantastic job, but the building, the marketing is going to – if you want to continue with that creamery, it's going to cost money and a plan. The hay and grains, I don't know what the figure is on the CRP. It's.....

Unidentified Speaker: One million a year.

Candy Easley: .....1,000,000 a year. Of course, we just got done saying 200,000 is no big deal. Hay and grain does fine. They can't even come close to meeting half what horse people – and I'm one of them – demand. We're not even meeting that market. So in my opinion, the shutdown of the dairy industry is not going to shut down hay and grain. Personally, I think we can invest a lot more money into those industries and actually increase them.

I was trying to think, because when I first came, there was only one working dairy at Pt. MacKenzie left. How many is the lowest that we've had, Joe? Because there was two in Palmer, one at Pt. MacKenzie. That's three.

Joe Van Treeck: Right.

Candy Easley: And then we had more up north.

Joe Van Treeck: Right.

Candy Easley: But was the least number of operating dairies we had?

Joe Van Treeck: Well, you know, and when you ask that question, those were being run by ARLF because they were repos.

Candy Easley: No, no. I – no, I'm talking about the.....

Joe Van Treeck: The actual operating. The Baskins.

Candy Easley: Right.

Joe Van Treeck: The Baskins, the Hamiltons and the Havemeisters.

Candy Easley: That's right.

Joe Van Treeck: That's the – that was the – that's been the bottom to build from.

Candy Easley: That's right. And we – but we survived that. I'm just point out, we've been as low as that before. Not that I'd like to see that again.

Joe Van Treeck: But you're about as low in Delta as you've ever been, right?

Candy Easley: Yes. True.

Joe Van Treeck: Can I ask a question quick, Chad? And if I'm asking a question that's propriety, I'll apologize and you just tell me. But he made – Chad made the comment earlier that – or Candy – that the deals that the make with producers for financing are secured by the milk check. And we just happen to be the ones that are producing the milk checks, so we just happen to be the one that are making the payments for the loans. And that goes with the loans that you have for producers that sell milk to us as well, correct?

Chad Padgett: Correct.

Joe Van Treeck: So the technical question in my mind is what I gather today is we got a technical default on those, unless there's been some restructuring because I'm not familiar that we're not making the payments to either you or to your agency or to yours. Because we'd get a call like 8:00 o'clock the next morning. But there must be something else in those notes that's the challenge.

Chad Padgett: Correct. And you're absolutely right. What I mean to say is that the three I've mentioned here are not delinquent at this point. However, there are statutory requirements. Again, this comes back to some of the unauthorized things that were done. In addition to that, we also have some deferrals. Basically, a balloon payment as well as a shared appreciation agreement. All of these things are happening this year. So that's what has to be understood.

So actually, the last thing that ever comes is us – our payments starting to drop. I think that's hard for a lot of folks to get their mind around. That's the last thing to go because everything, if you're in the dairy business, you're not going to pay the feed bill so you can milk the cows so you can get your paycheck and we're going to take that first. So what starts to happen is the guy that's selling you feed like Ken, he's going to be the first one that doesn't get his check. Or he might be somewhere in the middle of that list. The last one is going to be what we get from Joe.

Rhonda Boyles: Chad, this is not a problem that in some cases the producers created, but it was practices by the FSA.....

Chad Padgett: Correct.

Rhonda Boyles: .....prior to you and Lord only knows what happened. Is there an obligation on the part of the federal government to come here and resolve this?

Chad Padgett: Technically, no. And the reason I say that is the statute doesn't read that way. If – this is what I alluded to earlier, if we make a mistake, it's on the borrower. We have no obligation, statutory or otherwise to take that hit.

Rhonda Boyles: Put your political hat on. Is it a possibility that the feds will come in here?

Chad Padgett: Again, this comes back to having a good business plan for processing, for dairy production. It comes right back to all of this and this is what Senator Stevens asked for five years ago. This is what Senator Stevens did not get for the past five years. Therefore, that's why we're in this situation and that's why I say I don't – I think he would love to see – and the reason I mention him so much is because he's the one that's appropriated and authorized the money.

I don't want to discount what the other two of the delegation have done because they've also been involved with it. But he's kind of spearheaded this. So whether or not at this point I think he would love to save these. Whether or not in all reality he can get language into an appropriation or language into anything at this point, that's a question and that's where I highly doubt it. Because the ag budget bill, we've been cut every year. Like I said, I just closed three offices with a lot of people after me last year. So whether or not there's a stomach to do it, and if we do it for Alaska dairies, anywhere else that you see the same problems across the county, everybody's scrutinizing that. We all know what's happened on the bridges. We all know what Senator McCain thinks of Alaska getting money. Believe me, it's being scrutinized. So I don't know. I think he wants to. I think the whole delegation would. Whether or not they can is the question.

Rhonda Boyles: Based on what Chad just said, what you've heard and where we are at this point, and I can extrapolate from this some more specifics, but maybe we need to bring together the data that we've had laid in front of us and we need to, you know, go back and look at it again. Do we make the statement, we don't have any hope?

Gail Phillips: No.

Ken Sherwood: No. I think we need to line something out that even though there's – if there are two producers left, and even if Mat Maid's included in this, that maybe a recipe for here's what we need to do and maybe it will work, basically.

Rhonda Boyles: Gail.

Gail Phillips: Uh-huh (affirmative). I agree.

Rhonda Boyles: Mark slash Rex. He's done a really good job representing you too, Mark.

Unidentified Speaker: Yeah, I agree.

Wes Eckert: I think there needs to be an A and a B plan. I mean, this is a touch of reality that Chad is saying this is where we're at. But this is the impact if – on the other hand, if you've got – using Gail's term – the political will and the money to subsidize this whole operation, then so be it. Sign the checks. Let it come.

Mac Carter: That's about as basic as you can get.

Rhonda Boyles: Okay. Joe's brought presents for you.

Ernie Hall: You know, Rhonda, I guess the question that runs through my mind is this let's suppose in our of our brilliance here we really come up with a solution to this, we as a group, will all the entities represented there sign off on that?

Rhonda Boyles: Here's what I – good question, Ernie. I think that we just have an awesome team here, Rex. I've asked Linda, who's been sitting there so quiet, such a sweetheart, to think about a little bit different set up in the room. And I also talked to Craig and Wayne before they left that I would like to have them help. If this – they need to own part of the solutions. So everybody that's here, we're good minds, let's just put everything on the table and start thinking about the solutions and the statements that need to be made. That includes staff. Anybody that (indiscernible). We've all struggled with this, so we all have a vested interest. We're not inviting Chad back again though.

Director DeVilbiss: I have a question for Chad though. We had a producer this morning say he'd be glad to have – just to have us buy his cows. Would that make him sound?

Chad Padgett: No, not based on the amount of the loan that I can think of, no.

Rhonda Boyles: I think before we leave, Joe, we need to do some soul searching and some a little bit of hard work here. Wes, can you give us – can you – well, you've got the week to play golf probably. Can you talk with us a little bit from your background on niche markets and give us a little bit of input there? Okay. And this one, Carol Lewis, Rachael, you got that under control, right? Then we'll go back and look at – and Joe, when you – you did it, sweetie, when the annual meeting came. You just said we are privatized, we all just kind of picked up our jaws (indiscernible) here. Give me a little – let's talk about a little bit different corporate model next time. Not a – you don't have to stay awake nights working on it. I know you. You do things like that, so don't do that with that. Just give us a little idea. Anybody else want a homework assignment? Ken, if we lose all the producers, are you going to stay in business?

Ken Sherwood: (Inaudible reply)

Rhonda Boyles: As long as you can say that, we'll be okay, so.....

Unidentified Speaker: As long as there's dogs and cats, huh?

Ken Sherwood: Dog and cats.

Rhonda Boyles: Horses?

Ken Sherwood: Horses.

Director DeVilbiss: Ken, one thing that would be helpful for me is to know how much barley is going into the dairy. Less than I thought. I thought all the rations were barley.

Ken Sherwood: No. Down here – I don't know about Don, but down here, there's very little barley. But that doesn't mean they're buying barley direct from Delta and using it. But our rations don't – mainly corn-based rations.

Director DeVilbiss: So you're not providing (indiscernible).

Ken Sherwood: Probably not. Occasionally, we'll make a dry cow ration, but seldom.

Rhonda Boyles: So now we – I haven't ignored the fact that Gary's been with us all day long. Gary, thank you for coming.

Paul Huppert: He’s a niche marketer.

Rhonda Boyles: Yeah, I know it. He’s a niche marketer. And I think that maybe we should invite you back next week if you have nothing better to do, dear. Otherwise, you might want to visit with Wes a little bit. Give him more of what was good and what was bad or is good and is bad. Okay. Thank you. And oh, by the way, the meeting starts at 10:00, 10:00 o’clock next week.

Unidentified Speaker: 10:00 o’clock?

Rhonda Boyles: 10:00 o’clock. We get to sleep in a little bit.